Budget Address 1985

Alberta

HON. LOU HYNDMAN
PROVINCIAL TREASURER

85-3517/

Budget Address 1985

Presented by the Honourable Lou Hyndman
Provincial Treasurer
in the Legislative Assembly of Alberta
on Monday, March 25, 1985

Table of Contents

Introduction	5
Economic Situation and Outlook	5
The Alberta Economy	6
Fiscal Situation	11
Fiscal Strategy, 1985-86	13
Budgetary Expenditure, 1985-86	15
Operating Expenditure – Services for Albertans	15
Capital Expenditure – Jobs for Albertans	22
Taxation	24
Revenue Outlook	26
Financial Plan, 1985-86	27
Summary and Highlights	28

Appendix A – General Revenue Fund	31
Appendix B – Alberta Heritage Savings Trust Fund	47
Appendix C – Provincial Crown Corporations – Capital Budgets	53
Appendix D – Alberta Economic Situation and Outlook	65
Appendix E – The New Alberta Manufacturing and Processing Tax Reduction	75

1985 Budget Speech

This is a budget of economic recovery and renewed growth.

The indicators of employment stability and growing confidence are increasing. Alberta's economy, powered by the energy sector, is expanding at a sustainable pace. Albertans are looking ahead with self-assurance and recharged enthusiasm. 1985 will see most sectors of our economy broadening and expanding.

Realistically, some sectors are not yet on the recovery track and, sadly, some Albertans are still facing difficult problems. Major economic transition is never easy. Structural change is a wrenching experience. But this government has done more than any other to help cushion its citizens from the worst of the adjustments of the past two years.

Alberta is a trading province. When there is a tremor in world commodity markets, we feel the aftershocks – good and bad. Short-term uncertainties surround our key export commodities. But this should not diminish our confidence because the Alberta outlook is bright. This is a province of opportunity; we are now poised for years of steady growth and job security.

The objective of this budget is to keep the wheels of recovery moving towards the goal of steady, long-lasting growth. This budget sustains the momentum of recovery, not by "quick fixes" but by building on strengths. It is based on responsible financial management. It continues to constrain government expenditure and reduce the size of the public service. However, there is no sacrificing of our quality people programs or assistance for those in need. This budget provides unparalleled employment aid and student financial assistance. It supports permanent, new jobs by continuing a stable, low-tax climate conducive to private sector expansion, investment and job creation.

Economic Situation and Outlook

Alberta has an open economy. We export one-half of all resources extracted, goods produced and services generated. As a result, our economic performance is heavily influenced by economic developments outside our borders.

There were major improvements in the external environment in 1984. Alberta's largest trading markets, the United States and the rest of Canada, experienced solid economic growth.

The United States economy grew at an exceptionally strong rate of 6.7% in real terms. The Canadian economy benefited greatly from its strong trading ties with that country, posting real growth of 4.7% for 1984. Another major plus was the reduction in inflation throughout the industrialized world.

There were some negative factors at work in 1984: real interest rates remained relatively high, energy markets were unstable and markets for petrochemical products remained soft. Grain and livestock prices were artificially low due to the subsidization policies of some of our major competitors.

Conditions outside Alberta should improve in 1985. The United States economy is forecast to achieve real growth in the range of 3%. Although this is a more moderate rate than last year, the expansion will be broadly based and will provide stimulus to most of Alberta's exporting industries. Continued growth is also expected in Pacific Rim countries which will provide Alberta exporters with opportunities for increased sales.

The Canadian economy is forecast to continue expanding in 1985. Real growth is estimated

at 2%. Perhaps the single most important development in the Canadian economic outlook is the renewed sense of confidence in the country. This has been bolstered by such positive factors as the ending of the Foreign Investment Review Act, a favourable business attitude by the new federal government and prospects for improved federal-provincial cooperation.

In a federal system such as Canada's, it is essential that First Ministers work together in a spirit of cooperation. Recognizing that differences are inherent in a diverse country such as ours, it is very important that First Ministers strive to find a consensus on national economic policies. At the Regina Conference of First Ministers in February, investors and consumers clearly observed an atmosphere of cooperation. The tough issues to resolve, though, are still to come.

Some negative external forces persist in 1985. World oil markets continue to be jittery, interest rates remain high and protectionist positions are more visible in some countries.

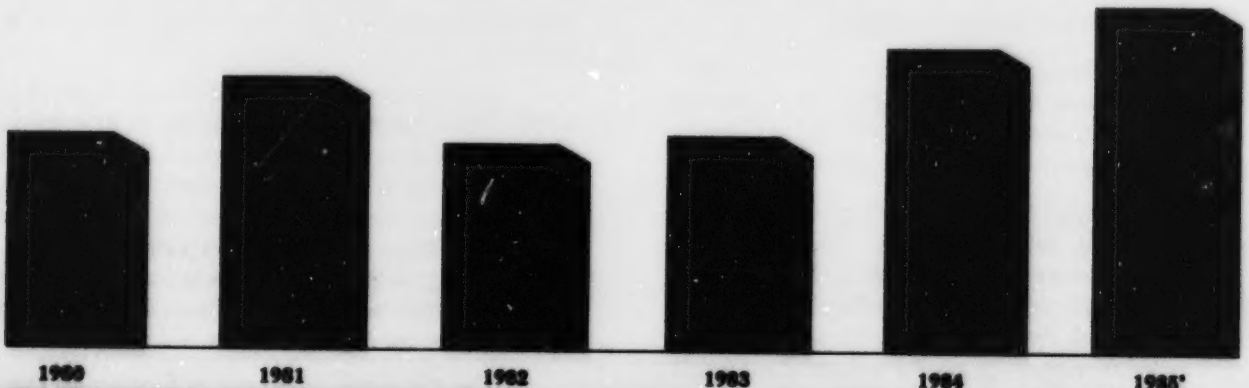
The Alberta Economy

In looking back at Alberta's economic performance in 1984, what stands out is our basic economic strength relative to other parts of Canada. Alberta has

- the highest family income after provincial taxes,
- the highest per capita construction expenditure,
- the highest proportion of working age population employed, and
- the highest retail sales per capita.

With the exceptions of the building construction industry and agriculture, all other Alberta economic sectors performed well in 1984. Improvements were increasingly evident as the year progressed and the pattern of recovery became clearer. This recovery was not simply a burst of temporary activity in a single sector. It was a broadly based consolidation of past economic gains throughout the economy. It marked progress toward our

VALUE OF ALBERTA'S EXPORTS
(millions of 1971 dollars)



* Estimate

goal of stable and long-lasting economic prosperity. Further progress will be made this year. Alberta should grow at a healthy and sustainable pace in 1985 and 1986.

Real gross domestic product is expected to increase by 2% to 3% in 1985. Exports, lead by oil and natural gas sales, posted strong growth in 1984 and are expected to increase further in 1985. With higher levels of oil and gas related investment, total Alberta investment is forecast to grow this year by 4% to 7% in real terms. Total consumer expenditure should grow by about 1% after adjusting for inflation and per capita retail sales should continue to be among the highest in Canada.

Low inflation was one of the economy's bright spots last year. The average of the Edmonton and Calgary consumer price indices increased by only 2.6%, compared to 4.4% for Canada as a whole. Inflation should remain below the national average this year, at between 3% and 4%.

Oil and Gas

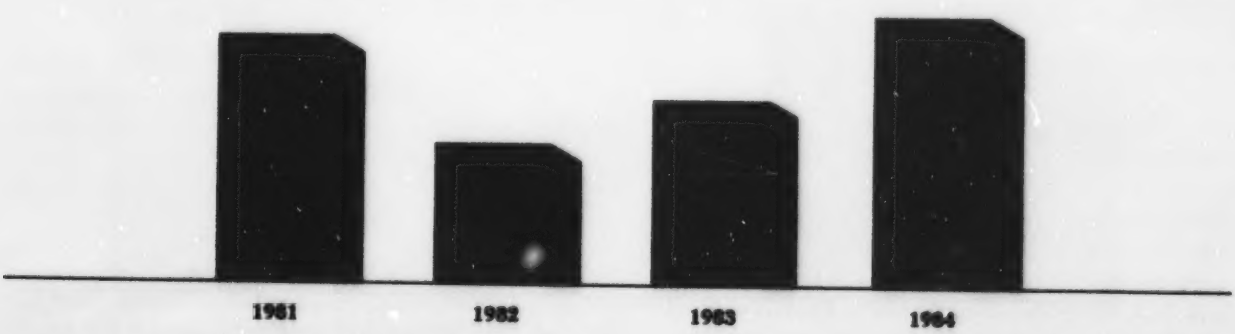
The oil and gas sector is a mainstay of Alberta's economy and will remain so for the foreseeable future. Its performance in 1984 improved and prospects are for further progress this year.

Drilling activity increased by over 20% last year and the momentum should continue in the current year. Petroleum lease and licence bonus payments in 1984 showed a 45% increase over the 1983 level, a clear indication of renewed investor confidence in the industry. Cash flow from upstream operations has improved significantly as a result of the 1982 Alberta Oil and Gas Activity Program.

Production of crude oil and equivalent increased by an estimated 5% last year. A further production rise of 2% to 5% is expected this year as output of synthetic and experimental oil is forecast to reach an all-time high.

Alberta natural gas sales rose by over 8% last year with increased penetration in all markets. Sales in Alberta were spurred by the increased feedstock requirements of our petrochemical industry. Major gains in national industrial activity and more normal weather conditions boosted sales in the rest of

ALBERTA PETROLEUM LEASE AND LICENCE BONUS PAYMENTS
(millions of dollars)



Canada by 10%. The new market-responsive pricing regime for sales to the United States helped increase natural gas flows south of the border despite extremely competitive market conditions.

This year natural gas production should improve significantly. The largest sales gains are expected in the United States market where our natural gas is now more competitively priced. Further sales gains in the Alberta and Canadian markets are also expected.

Despite its fundamental strength, our oil and gas industry remains vulnerable in the short term to the fragile world energy situation. Decisions taken in the Middle East can have a direct impact on the industry's short-term performance. However, with non-OPEC oil production peaking, Alberta's intermediate-term prospects look good.

From a longer term perspective, Alberta's oil and gas industry will remain a secure supplier for decades to come. Additions to our conventional reserves of oil exceeded production in 1983, proof that there is more oil to be found in Alberta. Synthetic oil production continues to increase. The numerous non-conventional oil sands extraction operations now being built are a clear recognition of our province's position as one of the world's most secure sources of fossil fuels. The shrinking gas bubble in the United States combined with the new export pricing policy speak well for the future of the natural gas industry. The oil and gas sector will continue to be a pillar of Alberta economic strength.

Agriculture

A combination of factors made 1984 a difficult year for Canadian farmers. In Alberta a severe drought in the south, the early snow cover in most of the province and weak world grain prices combined to reduce farm incomes. Over the past few years, prices of agricultural products have not kept pace with costs of production. Foreign agricultural subsidies have kept many commodity prices artificially low although costs of production have increased year after year. As a result, some farmers are now in financial difficulty.

A return to more normal weather conditions should increase agricultural output this year which would strengthen farmers' balance sheets. Many of the province's agricultural support and input-cost assistance programs will be especially helpful in 1985. In particular, the Farm Fuel Distribution Allowance will continue to provide significant help in containing farm input costs.

As the government's successful drive to increase food processing keeps expanding, agriculture will become an increasingly significant creator of jobs for Albertans.

Federal leadership in the implementation of a national tripartite red meat stabilization program would go a long way towards improving the security of our red meat industry.

The longer term prospects for our agriculture sector remain bright if we maintain our aggressive marketing efforts around the world. A reduction of trade barriers in the United States and the Pacific Rim would be particularly positive for Alberta agriculture.

Construction

Engineering, industrial and institutional construction was sustained in 1984. Major private sector projects with large job-related impacts in 1985 include

- Syncrude's expansion and Suncor's upgrading of their oil sands plants in Fort McMurray,
- ESSO Resources' Cold Lake heavy oil extraction facilities,
- drilling activity in preparation for the Husky oil upgrader, and
- gas plants and enhanced oil projects.

This sector of construction should be up about 5% over the 1984 level when combined with our capital programs to be outlined later.

Due primarily to the excess inventory of apartments and commercial offices built in the late seventies and early eighties, building construction activity was low in 1984 relative to the past. This oversupply is being absorbed gradually and the worst is over. However, we have to accept the fact that our existing building construction capacity exceeds our probable future peak requirements.

Housing starts totaled 7,300 last year and should remain at this level or be slightly better in 1985. Renewed activity in the residential and commercial sector will not bring a return to the unrealistic levels of the late seventies and early eighties. What we should experience this year is the first step in the return of this sector of Alberta's construction industry to more stable long-term growth.

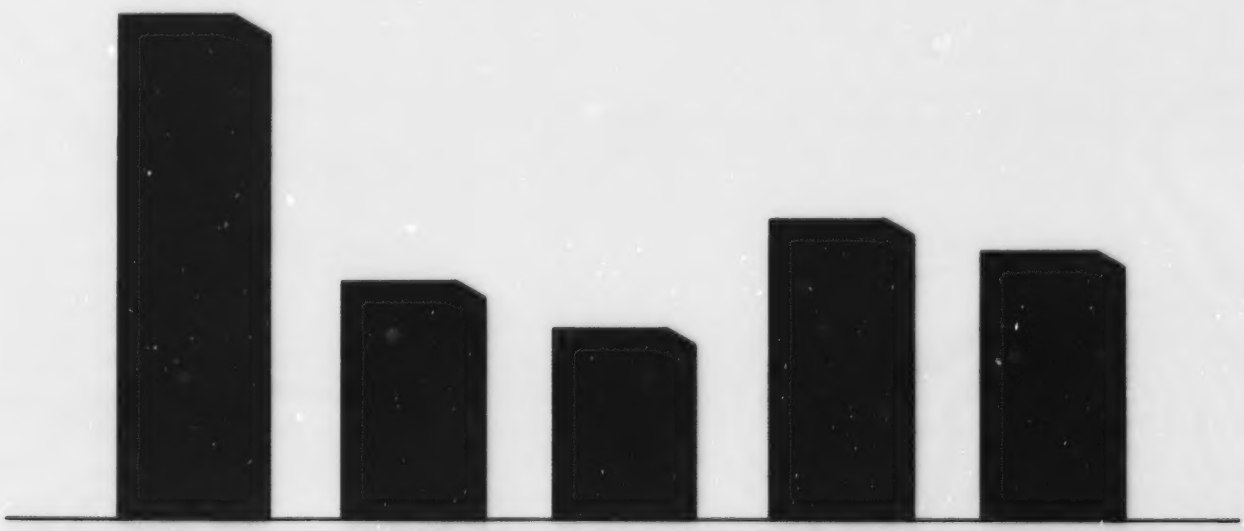
Despite the building construction industry's excess capacity, total construction expenditure per person in Alberta is still the highest in Canada and is forecast to remain so.

Manufacturing and Processing

Manufacturing activity improved in 1984 and further gains are expected this year. The total value of manufacturing shipments rose by 7.3% and most components of the manufacturing industry experienced an increase in the value of shipments. In the food and beverage area, shipments were up 9.4% even with the problems in meat packing. As the petrochemical industry works through the feedstock pricing situation, indications are that 1984 output levels will be sustained.

The outlook for manufacturing is positive for the year ahead. The five-year Alberta manufacturing and processing tax rate reduction, to take effect April

CONSTRUCTION EXPENDITURE PER CAPITA, 1984
(dollars)



1st, 1985, is evidence of the government's continuing commitment to stimulate the upgrading of our natural resources and the diversification of our economy.

The expansion of our manufacturing sector will require aggressive efforts to promote our products in the world marketplace. Opportunities exist in food processing, petroleum and petrochemical products and our emerging high technology industry. We have made important inroads into key foreign markets over past years and these successes must be consolidated and expanded. The Alberta government's commitment to world-wide promotion of Alberta products will help to ensure the steady expansion of manufacturing through the balance of the eighties.

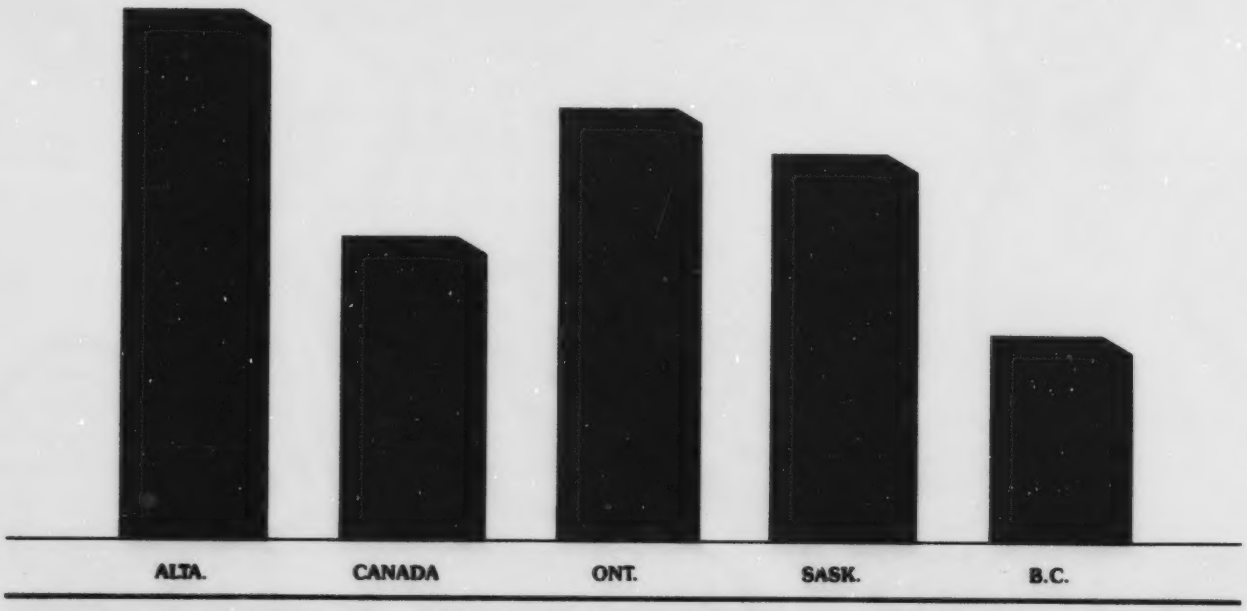
In the intermediate and longer term, a comprehensive free trade arrangement with the United States would provide substantial new job opportunities in Alberta's manufacturing and processing sector.

Employment

The state of Alberta's labour market is too often gauged by looking only at a single statistic, the unemployment rate. In isolation it gives an inexact picture of the underlying strength of the Alberta economy as a generator of jobs. In 1984 Alberta had the highest number of persons employed in proportion to the population of working age. Our economy's performance in creating jobs – a key indicator of strength – is the best in Canada.

Unemployment in building construction remains a serious concern. But this sector of the construction industry is working through its high inventory and by the end of 1985, the situation should be improved.

EMPLOYMENT PER THOUSAND WORKING AGE POPULATION, 1984



Total Alberta employment should increase modestly this year as a result of the expected increases in overall levels of economic activity in our province, and the government's significant employment initiatives and large, job-intensive capital programs.

Alberta: 1985-1990

As Alberta enters the second half of the eighties, our economy is poised for lasting growth at a rate above the national average.

But Albertans cannot be complacent. This is why we initiated the White Paper "Proposals for an Industrial and Science Strategy for Albertans 1985 to 1990".

We must continue our efforts to penetrate foreign markets, particularly the United States and the Pacific Rim. We must upgrade in the province a larger proportion of our natural resources. We shall meet our potential by relying on the private sector as the engine of growth and the creator of jobs. Our Alberta entrepreneurs have the talent and imagination to be competitive in the world marketplace given reasonable access for their products and services.

Critical to our ability to develop Alberta's economy is meaningful federal-provincial dialogue on national economic strategies. We are a trading province and require federal policies that sustain and expand our market access.

We have world-class strengths in key areas such as agricultural production and processing, synthetic oil technology, oil and gas extraction, petrochemicals, medical research, certain high technology fields and tourism. If we build on these strengths, we will prosper and grow. Albertans can look to the second half of the decade with well-founded optimism.

Fiscal Situation

In describing Alberta's economic prospects for 1985, I outlined some of our major strengths. Our financial position is an additional strength in a world where credit-card living by governments has become the rule.

The quality of a government's financial management is basic to a province's strength. Prudent financial management by government is essential to the encouragement of new, job-creating private investment in our province. This is so because such management gives private sector investors the confidence that large tax increases will be unlikely during the period required for a return on their investment.

This government's financial management record is credible and responsible. In 1983-84 we recorded a budgetary deficit of $59 million, a nearly balanced budget. This compares to a budgetary deficit of over $2 billion in 1982-83. This dramatic turnaround was brought about by two initiatives.

First, our farsighted 1976 decision to establish the Alberta Heritage Savings Trust Fund paid off. When the "rainy days" hit, we were able to open up the Heritage Fund umbrella. All the earnings on Heritage Fund investments have been channeled to our day-to-day operating account which provides an unmatched array of services to Albertans. We also reduced to 15% the amount of resource revenue allocated to the Heritage Fund. As a result of these two policy changes, we were able to provide interest shielding programs for Alberta's homeowners, businesses and farmers and at the same time help finance the deficit.

The second measure taken was to introduce a "hold-the-line" expenditure strategy two years ago. This measure was so successful that we came in under our own restraint target. Actual expenditure in 1983-84 was $450 million below the budget estimates and $858 million below total authorizations –

proof positive of our commitment to leaner, more efficient government.

For the year ending March 31, 1985, we are forecasting a budgetary surplus of $613 million. No other Canadian government has been able to record a surplus during this fiscal year. How was it done? On the revenue side, we had the continuing helping hand of the Heritage Fund. As well, natural resource revenue was higher than originally expected. Oil production was up, land sales increased and the American dollar soared which increased our Canadian dollar return on our natural gas and crude oil exports.

But the major achievement has been our very real success in holding down total government expenditure. We expect total Alberta government expenditure in 1984-85 to be below the level of the previous year. No other Canadian government has been able to demonstrate this degree of restraint. No other government has reduced year-over-year expenditure.

Debt servicing costs are a key indicator used by the international financial community to judge a government's financial strength and fiscal integrity. In 1984-85 Alberta's interest payments on our debt comprise less than 1% of our budgetary revenue. This compares to an average of about 10% for the other nine provinces. In the case of the federal government, approximately thirty-five cents of every dollar of revenue goes to pay the interest on the federal debt.

The net asset position of the General Revenue Fund at the end of this month is forecast to be $835 million, a major increase from last year. In addition, the income earning assets of the Heritage Fund will total approximately $12.2 billion. There are few governments in the world which can match the financial strength of the Province of Alberta.

We must not squander this strength. We must sustain our reputation for careful, responsible management of the public finances. Employment security and new job opportunities will be the result.

DEBT SERVICING COSTS AS A PERCENTAGE OF REVENUE, 1984-85

Fiscal Strategy, 1985-86

The fiscal strategy for 1985-86 takes into account our financial position and the state of the Alberta economy. Its four elements are

- to broaden and accelerate the momentum of recovery and build toward the goal of durable economic growth;
- to provide job security and a broad range of employment initiatives, especially for young people;
- to help those Albertans in need and continue the delivery of top quality people programs across the province; and
- to maintain our hard-earned reputation for fiscal responsibility.

Lasting Economic Growth

No one wants a return to the economic roller-coaster ride of the recent past. The goal of Albertans is steady, broadly based economic growth that endures. Relying on the private sector as the engine of growth will enable the province to reach that goal of durable growth. This approach is the foundation of Alberta's economic strategy for the years ahead.

But this does not mean that government should be an idle onlooker. We cannot sit back passively in this highly competitive world. Government can help set the stage for private sector risk-taking. There are areas where, for valid reasons, the private sector is unable to invest in projects which make good sense. A prime example in Alberta is the Syncrude project. By reason of this government's decision to support that project, thousands of Albertans have jobs here.

This budget reinforces the recovering private sector

- by maintaining the most attractive tax environment in Canada,
- by continuing fiscal and economic policies that are known and understood,
- by assisting in the creation of pools of private sector risk capital,
- by supporting trade initiatives,
- by expanding our range of high quality capital facilities,
- by building on our strengths, and
- by stimulating research and development, a key thrust of the White Paper.

Employment for Albertans

Although the recovery is spreading through the economy, it takes time for businesses to hire aggressively again. Typically, this takes place later in the recovery cycle. We continue to be deeply concerned about the unemployment situation. Our government has the best record in Canada for assisting employment through the transition period.

However, the permanent job creator is the private sector. Lasting jobs come from private sector investment. This budget continues to ensure the most attractive fiscal and economic climate in Canada for that private sector investment.

Essential People Services

Some Albertans are not able to share in the economic recovery. This budget will support disabled Albertans, the disadvantaged and our elderly citizens to an even greater extent than before. It will ensure that they can continue to lead their lives in dignity and security. Compassion for those who need help will continue to be a priority of this government in all our policies and programs.

This budget will also continue to ensure that all Albertans receive a range and quality of public services unmatched in Canada. There are no "cutbacks" in people services. However, it would not be responsible to widen further the gap between our

already high service levels and those provided in other provinces. Albertans must be realistic in their expectations of what government should provide. Personal self-reliance and individual initiative must be encouraged.

Fiscal Responsibility

Maintenance of our strong financial position is fundamental to Alberta's overall fiscal strategy. Our present financial strength did not happen by accident. It happened because

- we instituted resource and royalty policies that balance our ownership position with job activity,
- we established the Alberta Heritage Savings Trust Fund, and
- we held the line on government expenditure.

Owning a natural resource does not mean that it will automatically generate substantial royalties. We live in a global market where competition for resource development is keen. This government has carefully planned a successful economic and fiscal climate that encourages private sector resource development and ensures a fair return to the owners of the resource – the people of Alberta.

At the centre of our financial strategy is the Heritage Fund. Since September 1982, every dollar

HERITAGE FUND SUPPORT FOR EMPLOYMENT, ECONOMIC AND SOCIAL PROGRAMS
(millions of dollars)

of the income earned on its investments has been used to fund programs for Albertans. Through 1985-86, the Fund will provide the dollars for health, education, employment and other social programs for two months of the twelve. By next spring, the income from the Heritage Fund will total $5.5 billion over four fiscal years.

Without this Heritage Fund support, Albertans would face tax increases or severe cuts in grants and programs. The commitment to a savings fund is not impaired; the Fund will merely grow more slowly. The integrity and existence of the Alberta Heritage Savings Trust Fund is secure.

But the Heritage Fund cannot be expected to shoulder all the load of protecting our enviable financial position. This budget will continue the momentum, started two years ago, to constrain government expenditure and streamline the public service.

Budgetary Expenditure, 1985-86

Now that I have outlined the underpinnings of our fiscal strategy, here is our expenditure plan in concrete terms.

Two years ago in our hold-the-line budget, we began to step on the expenditure brake. We surpassed our own expectations. Spending grew by only 2.3% in 1983-84. Last year we put the expenditure brake pedal to the floor. Expenditure was targeted to decline, the first decrease in over 40 years. We will meet that target: expenditure in 1984-85 will be lower than last year.

In this budget, I propose to continue the momentum of spending restraint but with a slight easing of the pressure. The expenditure plan for 1985-86 calls for a 4.2% increase over the previous year's comparable estimate. Given Alberta's expected inflation rate, real growth in expenditure is targeted at less than 1%.

Operating Expenditure – Services for Albertans

The hundreds of components of the operating budget provide a multitude of services and touch virtually every Albertan. Many may not realize that approximately one-half of all government operating costs are in the form of grants paid to hospital boards, school boards, post-secondary institutions and municipalities. Approximately 80% of these grants go to pay wages and salaries. Accordingly, public sector wage restraint is essential to our economic recovery and job prospects. We must ensure that public sector wages do not lead those in the private sector.

This operating budget is 5.3% higher than last year's target. Frankly, this is greater than I would have liked. But the increase is necessary to provide extra assistance for our unemployed, for students and for the health care system.

- An extra $250 million is necessary to fund new programs and program improvements. This includes $100 million to provide full-year funding for the new employment initiatives and $50 million in transitional assistance to our petrochemical industry, which will help secure jobs.
- An increase of over $104 million is required to meet the increased demand for student financial assistance and allowances for those in need and looking for a job.
- Approximately $102 million is targeted in the form of modest grant increases to schools, post-secondary institutions, hospitals and nursing homes, local health units and municipalities.
- An increase of $74 million is necessary to meet the operating costs of new capital facilities, notably hospitals, all over the province.

Streamlining Government

We continue to hold firm to our commitment to reduce the size of the public service and streamline government operations.

Two years ago we eliminated 235 permanent, full-time public service positions which were unnecessary. Last year a further 876 positions were trimmed. For 1985-86 we are eliminating 523 positions. Given reduced population pressures and increased departmental efficiencies, there will be no reduction in service levels to the public.

Some of the reductions I have mentioned are related to privatization initiatives involving a dozen departments. The public sector is leaner and more efficient. I welcome constructive comments from Albertans on ways in which we can continue to "downsize" government operations.

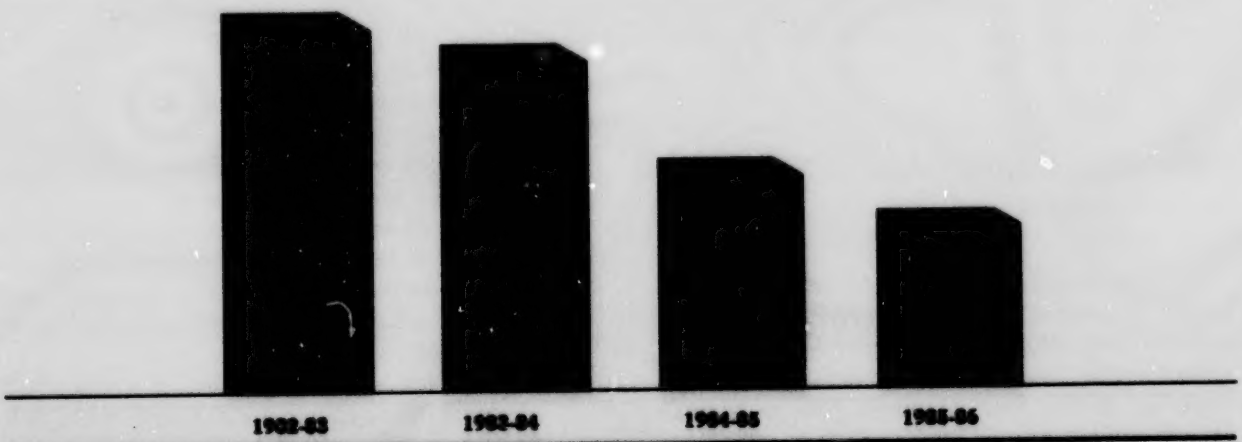
Stable, Long-Lasting Economic Growth

To reach the goal of sustained economic growth, we must continue to diversify and strengthen our economic base. The right approach, as stressed in the White Paper, is to build on strengths.

Our private sector, and especially our small business community, is a growing strength. This government provides the most attractive tax climate in Canada for private sector investment. Effective this April and lasting for five years, small businesses whose primary activity is manufacturing and processing will be given a five-year tax holiday; larger companies will be taxed on their manufacturing and processing income at a reduced 5% rate. This incentive is unequalled in Canada and will spur diversification and create jobs here. It will cost approximately $65 million per year in terms of revenue foregone. Details of the program are contained in an appendix.

We know that small businesses should not be fettered by excessively complex tax regulations. In 1982 we eliminated the need for small businesses to make monthly income tax instalments. In this session, I propose to parallel recent federal moves and simplify the taxation of Alberta businesses that

PERMANENT FULL-TIME PUBLIC SERVICE POSITIONS



are Canadian-controlled, private corporations. Alberta rules and paperwork will be minimized for about 28,000 taxpaying corporations and about 3,000 additional companies will become eligible for the lower Alberta tax rate of 5% on small business. This measure will reduce corporate income tax revenue by approximately $10 million per year.

The Small Business Equity Corporations Program, introduced in last year's budget, has proven to be a major success in stimulating privately owned and managed pools of capital for investment in Alberta. In the past seven months, 142 new equity corporations have been formed with approximately $50 million available for investment in rural and urban Alberta. The original $15 million the government committed to the program will create or preserve over two thousand jobs.

We are pleased to announce that the previous total funding limit on the program will be changed and legislation will be introduced to raise that limit so more funding can be provided.

Another major strength of the Alberta economy is tourism. Our province with its rich diversity presents a wonderland of experiences for Albertans and visitors alike. The world has come to know Alberta through such success stories as the Commonwealth Games and Universiade. The international competition for tourist dollars is fierce. We must improve our competitive position especially if we are to derive the maximum tourism benefits from British Columbia's Expo 86 and our upcoming 1988 Winter Olympics.

Tonight, I am announcing, as a major government thrust, a number of new and expanded tourism initiatives totaling nearly $7 million.

- The tourism advertising budget will triple.
- A new, in-province travel campaign will be developed.
- A new Tourism Marketing Development Fund will be established.
- Training courses provided by and through Travel Alberta will be significantly expanded.
- Hospitality training will be boosted.

Energy and agriculture remain the foundation on which to diversify our economy and create jobs. The energy sector is financially sound owing largely to the timely $5.4 billion Oil and Gas Activity Program introduced by this government in April 1982. A successful area of diversification flowing from the energy sector is the Alberta petrochemical industry. This budget provides $50 million to facilitate the transition of our ethane-based industry to market pricing.

Agriculture is enduring tough times brought on by factors such as subsidized competition and faltering commodity prices. This government has long recognized the fundamental importance of agriculture and in 1985-86 will continue to provide major support through a wide range of programs unique in Canada.

- The Agricultural Development Corporation will receive a 26% increase in funding to over $100 million. This includes funding for the new Farm Development Loan Guarantee Program announced by the Minister in January.
- The Agriculture department's 1985-86 budget will total $108 million. It provides for the new, five-year farm financial management training and counselling programs announced in January.
- The large subsidy of purple fuel for agricultural use, a unique program for Alberta farmers, will cost an estimated $73 million, keeping farm fuel input costs the lowest in North America.
- The Primary Agricultural Producers Natural Gas Rebate Program will be continued to 1987 at a total three-year cost of $7.5 million. It provides assistance to farmers who use natural gas in livestock, dairy and poultry operations, alfalfa processing, greenhouses, irrigation and grain drying and in sod and peat moss businesses.
- The marketing of Alberta's agricultural products will be stimulated through both our overseas offices and the effective joint efforts

of the Ministers of International Trade and Agriculture.

Our full range of international exports, involving a total of over $11 billion of resources, goods and services, are vital to Alberta's economic development and contribute about one-fifth of our gross provincial product. Initiatives will be undertaken in 1985-86 to capture further export opportunities, particularly in the United States and the Pacific Rim. Alberta is participating in Expo 85 in Japan and we will be a major participant in the newly created Asia Pacific Foundation. For Expo 86 in Vancouver, Alberta will establish a world-class presence to provide a showcase for Alberta products.

In the advanced planning stage is the significant new Export Services Support Program that will provide an incentive to Alberta companies interested in export projects. The program will involve a sharing of private sector costs incurred in bid preparation on international projects. This week the Minister of Economic Development will make public the elements of this important new initiative.

An emerging economic development strength for Alberta is the "brain" or "high-tech" area. This budget, in combination with the Heritage Fund, will assist Alberta's developing electronics industry with funding of over $14 million. This will include an electronics information centre, a telecommunications research centre, and microchip design and fabrication facilities. The Alberta Research Council will receive $26 million which will include funding for joint ventures with private sector firms. The Alberta Heritage Foundation for Medical Research and the Alberta Oil Sands Technology and Research Authority are ongoing examples of our major commitment to research. This government has the largest per capita expenditure on research in the country.

Manpower Training and Employment Programs

The economic initiatives I have described will strengthen the recovery now underway. Employment growth traditionally lags behind the initial phases of recovery. Because we are deeply concerned about the unemployment situation, we have initiated more manpower training, employment and student assistance programs than any other government.

Last October the Minister announced a package of new and expanded employment and manpower training initiatives. The package will require expenditure of nearly a quarter of a billion dollars to the end of March, 1987, an expenditure without equal in Canada. Nearly $144 million is budgeted in 1985-86 for

- the Alberta Youth Employment and Training Program,
- the Wage Subsidy Program,
- the Summer Temporary Employment Program,
- the Priority Employment Program,
- the Alberta Training Program,
- the Special Needs Employment Program,
- the Alberta Environment Employment Program,
- the Private Vocational Schools Program, and
- the Career Hotline Information Service.

This level of funding is expected to generate approximately 44,000 direct jobs throughout the province.

Although these programs will reach a cross-section of Albertans, youth training and youth employment are stressed. In a downturn and during the early stages of recovery, young people are hit particularly hard because of their lack of experience. The Alberta Youth Employment and Training Program, a major new initiative, will help them gain experience. It provides a 50% wage subsidy; nearly $47 million is available in the upcoming year.

Tonight I am announcing a new program which will provide significant job opportunities for Alberta graduates of faculties of education who cannot find a permanent teaching position. Beginning teachers will be employed by school boards in training positions which will help them bridge the tran-

sition from students to full-time teachers. This two-year pilot project will start this September with first-year funding of up to $11 million to employ as many as 900 recent graduates.

In addition to these unmatched manpower programs, the 1985-86 capital budget will provide a large number of job opportunities.

Basic and Advanced Education

A key element of the provincial development strategy is to build on our human resource strengths. Albertans are aware that there is a dramatic industrial restructuring taking place. If our children are to compete successfully in the economy of the future, education is the key. This government has always placed a priority on education. Our spending on basic and advanced education is among the highest in Canada on a per capita basis.

For the first time in Alberta's history, school boards will receive a total of one billion dollars in basic grants from the School Foundation Program Fund. Per pupil grants will increase by 2%, with a total of $780 million budgeted to ensure that education services for our children are maintained at current high levels. In addition, we are providing an extra $27 million to effect qualitative improvements in programs, to ensure greater equity among school jurisdictions and to support all other aspects of basic education.

Basic operating grants to our self-governing, post-secondary education insitutions will increase by 2% to $628 million. A further $7 million in new funding will be provided for enhanced course programs and new facilities that will open this year. In addition, over $5 million in extra funding will be provided to reflect enrolment increases, raising total special enrolment funding to $17 million.

We know that many students who want to attend higher learning institutions encounter financial problems. This government provides student financial assistance that is second to none in terms of the amounts available and payment conditions. For 1985-86 we are budgeting $124 million for student assistance, an increase of 23% over this year's expenditure. This includes close to $10 million in

FINANCIAL ASSISTANCE TO POST-SECONDARY STUDENTS
(millions of dollars)

scholarships and awards from the Alberta Heritage Scholarship Fund. Additionally, almost $50 million in Alberta student loans will be approved and guaranteed by the provincial government during 1985-86. These programs will help 56,000 students with their education costs this year.

Health Care Services

Health care, like education and manpower training, is an investment in our people. Albertans benefit from health care services that are among the best anywhere.

However, these services come at a very high cost. If we are to meet the objective of responsible fiscal management, we must continue to address the difficult problem of reducing the rate of escalation of health care costs.

There are two aspects to the health care cost issue: the utilization of doctors' services and the use of hospitals. The cost arising from the services of physicians and other health care professionals has been climbing. However, last year there was an encouraging drop in the rate of increase. In 1984-85 there was no change in the doctors' benefits schedule and no change is planned for 1985. Even with no change to that schedule, the deficit of the Health Care Insurance Fund is expected to increase to $426 million, up over $54 million from this year's forecast deficit.

This budget contains no increase in health care premiums, which are lower than those in Ontario and British Columbia.

Our effort to improve the cost consciousness of the hospital system by requiring hospital boards to be responsible for deficits and permitting boards to retain surpluses is working. No hospital has yet implemented user fees. Hospitals are making ends meet by taking a hard look at their operating costs. In fact, most hospital boards have been able to record surpluses. Trustees are to be congratulated for their efforts.

Funding for both the operation of health care facilities and medical services in 1985-86 will rise by 4.5%. This compares to a 10% increase the year before. This reduction is a major accomplishment and consistent with our goal of prudent fiscal management. Nonetheless, the Alberta health operating budget will move past the two-billion-dollar mark this year and will account for approximately one-quarter of the total government operating budget. The continuing cooperation of all those who use and manage the system is needed to keep costs at a realistic level.

Help for Those in Need

Many disadvantaged, disabled and elderly Albertans are not able to share in the economic recovery. This budget will provide support at greater levels than ever before and will help to give them a greater sense of independence and security.

The budget of the department of Social Services and Community Health will increase by 6%, which is more than the expected inflation rate, to nearly $1.3 billion. This will provide an unrivaled level and range of services. Social allowances are budgeted to increase by $26 million to $461 million to provide for benefit rate increases for food, clothing and household expenses.

The Assured Income for the Severely Handicapped Program will receive $93 million, an increase of nearly one-third. Funding for the Day Care Subsidy and Operating Allowances Programs will rise by 25% to $51 million.

The William Watson Lodge in Kananaskis Country has been highly successful. It provides handicapped and senior citizens who have special needs with a mountain recreational experience they could not otherwise enjoy. Tonight, I am announcing a doubling of the capacity of this facility. Details will be provided in supplementary estimates for the Capital Projects Division of the Heritage Fund.

The continued contribution of our senior citizens to the development of Alberta has not been

forgotten. This government provides an unequalled package of programs for our seniors including

- premium free health coverage and other health benefits,
- home improvement grants,
- self-contained and lodge accommodation,
- property tax rebates and renter assistance grants,
- assured annual income, and
- social allowances for the aged.

I am pleased to announce that the special home heating grants for 85,000 senior citizens living in their own homes will be extended through to the end of 1987. The estimated total cost is $25 million.

In total, our wide array of senior citizen programs will provide approximately $400 million in benefits in 1985-86.

Alberta widows and widowers aged 55 to 64 and of limited means are eligible for all senior citizen programs. This initiative is unique to Alberta. Also, we are the only province to provide a pension to widows and widowers in need. In 1985-86 the benefit rates will increase and a total of $16 million has been budgeted.

Affordable Shelter and Energy

An area of ongoing priority is to encourage the availability of shelter at affordable rates for homeowners and renters. No other province provides the range and level of support available in Alberta. This budget provides over $290 million in direct and indirect housing assistance for Albertans.

Low cost, royalty-free energy to heat homes and operate businesses has been a unique Alberta program since 1974. As announced recently by the Minister of Utilities and Telecommunications, the Natural Gas Price Protection Plan will be extended for three years at a total cost exceeding one-third of a billion dollars. A typical Alberta homeowner will save approximately $115 each year. This major shielding program leaves Albertans with higher disposable incomes, boosts our business and industrial sector and provides our citizens with the lowest cost natural gas in Canada.

The Alberta Electric Energy Marketing Agency pools electricity generation and transmission costs. The government will maintain the current level of shielding through 1985-86 at a cost exceeding $50 million.

Assistance to Local Government

Local government plays an important role in Alberta's economic and social development. In 1985-86 approximately three-quarters of a billion dollars in conditional and unconditional funding will flow to municipalities and local service agencies from a dozen government departments for a wide variety of purposes including social services, community health, transportation, parks and policing.

Unconditional municipal assistance grants for 1985-86 are budgeted at over $97 million, an increase of 4.2%. The amount budgeted for interest relief on eligible municipal debt is $122 million, up 6.1% from 1984-85.

In response to requests from municipalities and municipal organizations, the province will commence payment of $2.4 million in grants-in-lieu of taxes on government-owned units for senior citizens. Also provided are $800,000 in grants to municipalities for the equivalent to municipal taxes payable on privately owned, non-profit units for senior citizens.

As a result of the provincial government's ongoing high level of support to municipalities, including the legacy of the one-billion-dollar municipal debt reduction program, Albertans continue to enjoy among the lowest property taxes in Canada.

Capital Expenditure – Jobs For Albertans

Thousands of jobs will again flow from our large capital budget.

Capital projects have a double-barreled impact: they provide necessary infrastructure for social programs and economic development; they also provide many direct and indirect jobs.

In preparing this capital budget, our goal was to maintain jobs until private sector activity speeds up during the recovery. For 1985-86 departmental capital spending will reach almost $1.7 billion, virtually the same as the current year's large capital budget. It will create at least as many jobs in construction, perhaps more, as were created by the massive capital spending programs of each of the past two years.

Additionally, Crown corporations will support new capital activity of $750 million and Heritage Fund capital projects will total over $250 million.

On a per person basis, Alberta's capital works budget will probably be the highest in Canada.

With construction costs moderating, now is an ideal time to build needed capital works. Maximum value for the public construction dollar can be secured. There is a "window" to use capital projects to provide jobs before private sector expansion places pressure on construction costs.

As part of the budget preparation process, we reviewed all the potential public works capital projects to determine which ones could be accelerated to take advantage of this "window". Examples of capital projects which have been accelerated include the replacement of the Fort Saskatchewan Correctional Centre and the Grande Prairie Alcohol and Drug Abuse Facility.

With this capital budget and the employment programs and student financial assistance mentioned earlier, Alberta leads the nation in programs to stimulate jobs and assist young people.

Transportation

Alberta has built up an efficient transportation network linking all parts of the province. For 1985-86 this job-creating budget recommends $691 million for capital improvements, up 5.7% from the previous target.

Record volumes of road construction will be carried out on primary, secondary and resource roads. Highway construction and maintenance is budgeted at $545 million.

Our urban centres will receive funding of $137 million for transportation programs under the new, half-a-billion-dollar Urban Transportation Financial Assistance Program announced last fall for a three-year period. In the metropolitan areas, the 75% provincial funding share will pay for the largest part of light rail transit and arterial roadway construction. This program builds on the six-year, $908 million urban transportation program, just completed, which saw major projects built all over the province.

These projects, together with the new Hamlet Streets Assistance Program and the continued Town and Village Streets Assistance Program, will create a high level of employment activity in the road building sector.

A major, new automated data system will speed up the delivery of services to the motor carrier industry and the shipping public.

Utilities

Utilities are sometimes taken for granted but they are basic to economic development and quality of life. This budget provides nearly $100 million for job-intensive utility development projects across the province. Through the water and sewer program alone, over $612 million has been invested since 1979 in 613 projects located in 371 Alberta communities.

Recreation, Culture and the Environment

Alberta's varied and high quality recreational and cultural facilities provide a welcome outlet for Albertans in their leisure time and are a major tourist attraction.

The new, five-year Community Recreation/ Cultural Grant Program announced recently provides support for the planning, development and operation of recreational and cultural facilities. It will reduce "red tape" by combining three existing programs. Tonight, I am announcing that grants under the new program will be raised by one-third to $20 per capita. The budget for the first year is $49 million. This initiative will provide jobs in many communities throughout Alberta in the months ahead.

The Calgary 1988 Winter Olympics will thrust Alberta into the international spotlight and will assist our export and tourism efforts significantly. For 1985-86 the province's Olympic capital funding is set at $33 million. All provincial projects are continuing to be built on schedule and within budget.

Alberta's history is rich and exciting. Capital support of over $16 million is budgeted to continue work on historical projects throughout Alberta. This province's per capita operating and capital support for cultural activities is the highest in Canada. The "culture industry" of Alberta is now an important job-producing sector of our province.

To ensure that the quality of Alberta's environment remains protected, over $9 million in total funding will be provided in 1985-86 to the Alberta Special Waste Management Corporation, largely for further servicing of the Swan Hills site.

Health and Education Facilities

This government provides its citizens with health care facilities that are of world stature. We have established a hospital program which ensures that our rural residents can receive basic health care in their area, a factor which has helped to support the existence and expansion of many of our smaller communities.

In 1985-86 capital support for health care will total nearly a quarter of a billion dollars. This is part of an ongoing construction program which is estimated at over two and one-half billion dollars spread over more than a decade. Approximately one-half of this program will be funded in 1985-86 and future years.

Funding in 1985-86 for the two urban hospitals in Edmonton and Calgary, announced in the last budget, will total $53 million. Capital support for 25 rural hospitals is provided in the amount of $65 million.

The equipping of our hospitals with the latest in modern technology is continuing with $27 million budgeted for 1985-86.

Alberta's education facilities are among the most modern in Canada and are evidence of this government's continued support for both basic and advanced education. This budget allocates $156 million for basic education capital debt retirement. $11 million is budgeted in capital grants to assist school purchases of educational computers and other business-education equipment and a new $4.5 million operating grant for the purchase of computer software and other learning resources is also provided.

Capital funding for post-secondary institutions is targeted at $124 million. Work will start on new projects worth, in total, over $50 million including

- a major expansion of MacEwan Hall, the students' union building, at the University of Calgary;
- the complete renovation of the Arts Building at the University of Alberta;
- a new library at Olds College; and
- the renovation and expansion of the original building at the Vermilion campus of Lakeland College.

The 1980s Endowment Fund, which matches

private donations to our post-secondary institutions, has been one of our most successful programs over the last few years. $80 million in provincial matching grants have already been approved, exhausting the resources of the program four years ahead of schedule. We are currently examining options to possibly extend the fund or create a successor program. Legislation will be proposed in the near future.

Capital Projects —
Major Crown Corporations

Alberta's major Crown corporations will make capital commitments totaling $955 million in 1985-86. This will result in direct capital construction activity of approximately $750 million in 1985-86, with many new jobs created.

Alberta Mortgage and Housing Corporation will provide direct funding for the construction of 420 shelter units primarily for senior citizens and lower income families. $19 million will be committed to finance the construction of 300 new housing units for low and moderate income families under the generous Family Home Purchase Program.

The Alberta Municipal Financing Corporation will finance an estimated $425 million worth of capital projects undertaken by cities, towns, school boards and other local entities. As in the past, these loans will be provided at our comparatively attractive borrowing rate. The result will be a significant reduction in the costs borne by local authorities and Alberta property taxpayers.

During 1985 Alberta Government Telephones will make capital expenditures of $208 million, mostly for new plant and equipment to maintain its world-class position in communications technology.

Heritage Fund Capital Projects

Last fall over $252 million was approved by the Legislature to support ongoing Heritage Fund capital projects during 1985-86. These projects help sustain jobs and bring lasting social and economic benefits for Albertans.

Our agriculture sector will be strengthened with over $100 million being provided for irrigation projects, agricultural research, flood control and the development of grazing reserves.

An additional $50 million has been approved for oil sands and enhanced oil recovery research — two areas of significant importance to Albertans.

Health care will continue to be supported by almost $49 million for the continued construction of the Walter C. Mackenzie Health Sciences Centre and for cancer research.

Further development of urban parks and continued work to complete recreation development in Kananaskis Country will be supported by more than $40 million.

Other capital projects include reforestation, land reclamation and electronics research and testing.

Taxation

There are no new taxes and no increases in existing tax rates in this budget!

This is possible for two reasons. First, natural resource royalty revenue covers a large portion of the cost of services and facilities Albertans enjoy. Second, the Heritage Fund has come to our rescue by providing for day-to-day budgetary purposes all the income earned on Heritage Fund investments.

Albertans enjoy the most favourable tax structure in Canada by a wide margin. The facts speak for themselves.

— Albertans have the lowest provincial income tax rate by far and there is no surtax on high incomes as in the other western provinces.
— Albertans do not have to pay a sales tax every time they buy something; residents of all other provinces pay retail sales taxes.
— Albertans do not have to pay a gasoline tax; residents of all other provinces except Saskatchewan pay gasoline taxes.

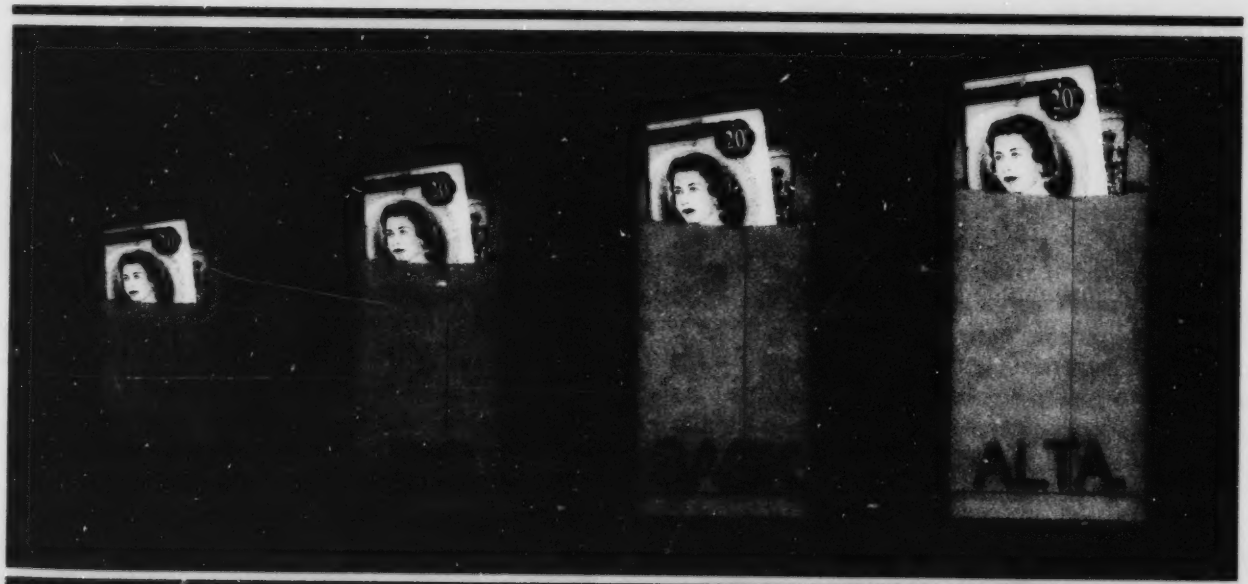
In dollar terms, a family in Alberta earning $30,000 would take home, after provincial tax, $1,370 more than a comparable family in Ontario.

Alberta companies also benefit from the most favourable provincial tax rates in Canada which help make existing jobs more secure and assist in the creation of new jobs.

— Alberta's general and small business corporate income tax rates are among the lowest in Canada.
— Alberta small businesses whose primary activity is manufacturing and processing will be given a five-year tax holiday effective April 1st; other corporations will be taxed at only 5% on profits from manufacturing and processing.
— Alberta small businesses do not have to pay monthly instalments of provincial corporate income tax.
— In Alberta there is no capital tax and no payroll tax.

Of course, if energy prices or markets erode measurably from present levels, this low-tax environment would have to be reviewed, together with the level of grants and delivered services.

COMPARISON OF TAKE HOME PAY AFTER PROVINCIAL TAXES
(For a family of four with a gross income of $30,000)



MAJOR PROVINCIAL TAX RATES

	Personal Income Tax		Retail Sales Tax	Gasoline Tax	Tobacco Tax	Health Care Premiums		Corporate Income Tax		Capital Tax	Payroll Tax
	Basic Rate	High Income Surtax				Individual	Family	Small Business Rate	General Rate		
	(%)	(%)	(%)	(¢/litre)	($/pack)	($)	($)	(%)	(%)	(%)	(%)
British Columbia	47.5	10.0	7	8.0	.62	192	408	8	16	0.2	—
Alberta	43.5	—	—	—	.37	168	336	0/6[a]	5/11[a]	—	—
Saskatchewan	51.0	12.0	5	—	.67	—	—	0/10[a]	16	0.3	—
Manitoba	54.0	20.0	6	7.5	.65	—	—	10	16	0.2	1.5
Ontario	48.0	—	7	8.0	.67	357	714	0/10[b]	14/15[b]	0.3	—
Quebec	70-85	—	9	12.9	.65	—	—	3	5.5/13[c]	0.45	3.0
New Brunswick	58.0	—	10	9.0	.75	—	—	0	15	—	—
Prince Edward Island	52.5	—	10	9.9	.38	—	—	10	10	—	—
Nova Scotia	56.5	—	10	9.8	.50	—	—	10	15	—	—
Newfoundland	60.0	—	12	10.8	1.20	—	—	10	16	—	—

As of March 15, 1985.

[a] The lower rate applies to income from manufacturing and processing (in Alberta commencing April 1, 1985).

[b] The zero rate applies to the first three taxation years of new businesses. The 14% rate applies to income from manufacturing and processing, mining, logging, farming and fishing.

[c] The lower rate applies to active business income.

Revenue Outlook

Alberta secures the lion's share of its revenue from oil and natural gas — not from taxes like the other provinces. The prices for these commodities are determined in foreign capitals. London, Riyadh and Washington, although far away, are like next-door neighbours in terms of their effect on Alberta. No other provincial government's budget is as exposed to external events. This makes revenue forecasting very difficult and open to wide swings in estimates. A one per cent deviation in our revenue forecast affects the budgetary "bottom line" by nearly $100 million.

Overall, I expect total budgetary revenue to be about $9.8 billion in 1985-86. This is above last year's estimate but slightly below the 1984-85 revised forecast.

Non-Renewable Resource Revenue

Non-renewable resource revenue is expected to be about the same as the 1984-85 forecast. Gross oil royalty revenue will be relatively stable as lower world prices are offset by the move to domestic market pricing. We are expecting an increase in the industry take-up of incentives for enhanced recovery projects which will lower our net oil royalty. These incentives will provide jobs now and benefits down the road for the province.

Royalties from natural gas and by-products should stabilize. Increases in sales to all market areas are forecast, especially to the United States as a result of the new, market-responsive pricing system. Volume gains in the United States are likely to be

largely offset by lower export prices which reflect the new market realities. As the natural gas surplus in the United States diminishes over the next few years, Alberta's export and associated revenue prospects are very promising.

Taxes

Total tax revenue in 1985-86 is projected to rise by 3.8%. Corporate tax revenue is expected to be up by 2.5%. This understates the total growth of corporate profits as $75 million in revenue will be foregone as a result of the combined cost of the manufacturing and processing tax reduction and the new small business tax simplification measures.

Personal income tax revenue should rise by 4.8% in 1985-86. Alberta taxpayers will save an estimated $40 million by "indexing", the provision which reduces the impact of inflation on taxes.

Federal Transfer Payments

Payments from Ottawa for a variety of federal-provincial programs are projected to decline by 10%.

In preparing its spring budget, the federal government must reject the option of cutting back federal program transfers to the provinces as a means of reducing the deficit. This option would merely shift the deficit burden from one order of government to another and taxpayers would be no better off.

Heritage Fund Investment Income

The transfer of all investment earnings from the Heritage Fund to the day-to-day provincial budgetary account is forecast at nearly $1.6 billion, up slightly from 1984-85.

The extraordinary assistance from Heritage Fund investment income represents almost one-sixth of total budgetary revenue. It alone is more than the total amount of personal income tax we expect to collect in 1985-86. Alberta would need a retail sales tax in the order of 7% to 8% to raise an equivalent amount of revenue.

The Heritage Fund is the reason why we are able to hold the line on taxes and fund the highest level of per capita employment support and student assistance in Canada.

Financial Plan, 1985-86

To summarize the expenditure plan and revenue estimate for 1985-86, expenditure is targeted at just over $10 billion and revenue is estimated at slightly under $9.8 billion. The budgetary deficit for 1985-86 is estimated at $250 million.

This is a swing from a forecast surplus in 1984-85 to an estimated deficit in 1985-86 because increased expenditure is necessary to maintain the momentum of recovery and to provide employment assistance and job security. As noted, this represents a slight easing of the restraint pressure.

Our financial position remains strong. In 1985-86 less than one cent of every dollar we receive in revenue will be required to pay the interest on our debt. On an aggregate basis, this province is not in debt. In fact, the income earned on the assets of the General Revenue Fund exceeds the interest to be paid on outstanding debt.

SUMMARY BUDGETARY PLAN
(millions of dollars)

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual	1982-83 Actual
Budgetary Revenue					
General Revenue	8,175	8,301	7,856	7,813	6,213
Heritage Fund Investment Income	1,690	1,580	1,530	1,469	866
	9,765	9,881	9,386	9,282	7,079
Budgetary Expenditure					
Operating	8,324	7,703	7,906	7,698	7,000
Capital	1,691	1,565	1,703	1,643	2,134
	10,015	9,268	9,609	9,341	9,134
Budgetary Surplus (Deficit)	(250)	613	(223)	(59)	(2,055)

Summary and Highlights

The highlights of the 1985 Alberta budget are

- No new taxes, no increase in existing, low tax rates and no increase in health care premiums.
- A massive capital budget of nearly $1.7 billion to maintain existing jobs and create employment. As well, $1 billion in other capital activity will be financed through the Heritage Fund and Crown corporations.
- First, full-year funding of the quarter-billion-dollar employment and manpower training initiatives that are unmatched anywhere.
- A 23% increase in financial assistance to help 56,000 post-secondary students.
- Job-creating, 5-year tax reductions to spur manufacturing, processing and upgrading in Alberta.
- Diversion of the entire investment income of the Heritage Fund to help pay for social programs and job-creating capital works.
- A reduction for the third year in a row of permanent, full-time public service positions.
- Further funding for the very successful Alberta Small Business Equity Corporations Program.
- $7 million to fund five new tourism initiatives.
- A one-third increase in per capita grants under the new 5-year Community Recreation/Cultural Grant Program.
- A record $2.2 billion in support for basic and advanced education.
- A slowing in the rate of increase in health care operating costs to 4.5% from an increase of 10% in 1984-85.
- A 4.2% increase in unconditional grants to municipalities.
- Less than one per cent of provincial budgetary revenue will be used to pay interest on debt; no other province is in this position.
- The Alberta General Revenue Fund is expected to remain in a positive net asset position.

In conclusion, this budget will expand the economic recovery on a broad range of fronts. It stimulates growth, strengthens the security of jobs Albertans now have and provides unmatched levels of support for those needing employment assistance.

Highest quality people programs are sustained; there are no cutbacks. Fiscal responsibility is maintained. A massive capital works program is provided while at the same time taxes, the deficit and borrowing are held down.

For Alberta in 1985 and beyond, confidence is justified. Opportunity is the watchword.

Alberta is on the move again.

Tables and Charts

Tables

A1 Budgetary Revenue and Expenditure 34
A2 Budgetary Revenue 35
A3 Deductions from Income Tax Revenue 36
A4 Budgetary Expenditure 37
A5 Operating and Capital Expenditure 38
A6 Non-Budgetary Transactions 39
A7 Reported Assets, Liabilities and Net Assets 40
A8 Change in Unmatured Debt 41
A9 Guarantees and Indemnities 41

Charts

A1 Budgetary Revenue and Expenditure 42
A2 Budgetary Surplus and Deficit 43
A3 Percentage Distribution of Budgetary Revenue by Major Source, 1985-86 Estimate 44
A4 Percentage Distribution of Budgetary Expenditure by Major Function, 1985-86 Estimate 45

General Revenue Fund

The province has two main funds: the General Revenue Fund and the Alberta Heritage Savings Trust Fund. The General Revenue Fund is the primary operating account of the province. It receives all public money, except money which is already specially disposed of by legislation or money paid in trust to the province. Expenditure from the General Revenue Fund is used to finance the day-to-day operations and programs of government departments. The Heritage Fund is described in detail in Appendix B.

A Guide to the Tables

The term "budgetary" is used to describe revenue or expenditure that affects General Revenue Fund net assets.

Budgetary revenue is described in terms of two main categories: general revenue and Heritage Fund investment income. General revenue refers to taxes; non-renewable resource revenue; payments from the Government of Canada; fees, permits and licences; trading profits; and other revenue. The Heritage Fund investment income category highlights the contribution made to budgetary revenue by the transfer, since September, 1982, of all the investment income earned on Heritage Fund assets.

Legislation may direct the transfer of budgetary revenue to another fund. This is shown in the financial statements as a reduction of budgetary revenue. An example is the transfer of 15% of non-renewable resource revenue to the Alberta Heritage Savings Trust Fund.

Budgetary expenditure includes two principal types: voted and statutory. Voted expenditure refers to appropriations made on the authority of supply votes approved by the Legislature and includes special warrants ordered by the Lieutenant Governor in Council. Statutory expenditure refers to appropriations made on the authority of legislation and relates primarily to debt servicing costs and revolving funds.

Budgetary expenditure is presented by functional categories and by department. Department-by-department estimates are further divided between operating and capital components.

Non-budgetary transactions affect financial assets and liabilities of the General Revenue Fund but do not change the net asset position. Non-budgetary transactions are primarily loans and advances, the issue and retirement of the province's debt instruments, and the purchase and sale of investments by the General Revenue Fund.

Compared to past years, there are two significant changes in the presentation of the 1985-86 estimates.

1. Voted and statutory expenditures are integrated to provide a more representative picture of government operations. In the past they were shown separately with only voted expenditure presented by function and by department.
2. Amounts voted for investment purposes are no longer treated as budgetary expenditure but as non-budgetary transactions to reflect their asset character and eventual classification in the Public Accounts.

General Revenue Fund
BUDGETARY REVENUE AND EXPENDITURE
(thousands of dollars)

Table A1

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Revenue				
General Revenue				
Taxes		2,583,000	2,666,000	2,549,690
Non-Renewable Resource Revenue		3,776,000	3,553,000	3,545,368
Payments from Government of Canada		1,231,000	968,000	976,300
Fees, Permits and Licences		177,000	194,000	166,676
Trading Profits		286,000	306,000	320,007
Other Revenue		248,000	169,000	255,115
		8,301,000	7,856,000	7,813,156
Heritage Fund Investment Income		1,580,000	1,530,000	1,469,217
		9,881,000	9,386,000	9,282,373
Expenditure				
Health		2,378,337	2,517,505	2,314,294
Education		2,218,237	2,130,034	2,064,446
Social Services		1,085,417	1,119,294	986,850
Regional Planning and Development		291,451	309,652	257,061
Housing		317,318	376,537	544,707
Recreation and Culture		180,503	179,321	146,046
Environment		98,337	95,364	91,298
Resource Conservation and Industrial Development		661,341	604,590	796,028
Transportation and Utilities		954,939	1,023,709	1,064,325
Protection of Persons and Property		391,066	404,553	377,384
General Government		596,829	678,595	594,777
Debt Servicing Costs		94,000	170,000	104,531
		9,267,775	9,609,154	9,341,747
Budgetary Surplus (Deficit)		613,225	(223,154)	(59,374)

General Revenue Fund
BUDGETARY REVENUE
(thousands of dollars)

Table A2

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Taxes				
Personal income tax		1,453,000	1,741,000	1,509,932
Corporate income tax		800,000	615,000	730,840
Freehold mineral rights tax		181,000	161,000	159,953
Tobacco tax		98,000	98,000	98,609
Insurance corporations tax		33,000	33,000	32,474
Pari-mutuel tax		10,000	10,000	10,797
Other taxes		8,000	8,000	7,085
		2,583,000	2,666,000	2,549,690
Non-Renewable Resource Revenue				
Crude oil royalty		2,826,000	2,650,000	2,872,913
Natural gas and by-products royalty		1,859,000	1,719,000	1,694,091
Synthetic crude oil royalty		165,000	259,000	303,830
Coal royalty		8,000	8,000	10,786
Rentals and fees		92,000	92,000	91,661
Bonuses and sales of Crown leases		660,000	475,000	486,981
Less: Exploratory drilling and geophysical incentives		(205,000)	(178,000)	(73,897)
Allocation to Alberta Petroleum Incentives Program Fund		(427,000)	(400,000)	(369,696)
Royalty tax credit		(384,000)	(288,000)	(607,438)
		4,594,000	4,337,000	4,409,231
Allocation to Alberta Heritage Savings Trust Fund		(689,000)	(651,000)	(756,688)
Allocation to Natural Gas Rebates Fund		(129,000)	(133,000)	(107,175)
		3,776,000	3,553,000	3,545,368
Payments from Government of Canada				
Canada assistance plan		347,000	340,000	318,909
Hospital insurance		355,000	265,000	253,302
Post-secondary education		202,000	144,000	149,972
Extended health care		94,000	95,000	88,393
Training of manpower		47,000	45,000	46,264
Oil export charge		152,000	28,000	85,775
Other		34,000	51,000	33,685
		1,231,000	968,000	976,300
Fees, Permits and Licences				
Motor vehicle licences		79,000	98,000	69,241
Land titles		20,000	22,000	20,643
Timber rentals and fees		17,000	12,000	16,864
Other		61,000	62,000	59,928
		177,000	194,000	166,676
Trading Profits				
Alberta Liquor Control Board		285,000	305,000	308,500
Other		1,000	1,000	11,507
		286,000	306,000	320,007
Other Revenue				
Investment income		138,000	70,000	147,076
Refunds of expenditure		51,000	42,000	49,922
Fines and penalties		20,000	23,000	21,096
Sales of assets		3,000	4,000	3,423
Miscellaneous		36,000	30,000	33,598
		248,000	169,000	255,115
Total General Revenue		8,301,000	7,856,000	7,813,156
Heritage Fund Investment Income		1,580,000	1,530,000	1,469,217
Total Budgetary Revenue		9,881,000	9,386,000	9,282,373

General Revenue Fund
DEDUCTIONS FROM INCOME TAX REVENUE
(thousands of dollars)

Table A3

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Personal Income Tax				
Renter assistance credit	[illegible]	86,000	77,000	38,869
Corporate Income Tax				
Rental investment credit	[illegible]	3,000	3,000	1,076
Allocation to Utility Companies Income Tax Rebates Fund	[illegible]	64,000	59,000	57,200
	[illegible]	67,000	62,000	58,276
Total	[illegible]	153,000	139,000	97,145

Table A4

General Revenue Fund
BUDGETARY EXPENDITURE
(thousands of dollars)

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Legislative Assembly	26,951	23,066	23,066	21,118
Government				
Advanced Education	939,369	899,523	872,138	847,826
Agriculture	219,889	222,244	194,707	184,762
Attorney General	134,342	129,554	129,062	120,277
Consumer and Corporate Affairs	24,709	24,837	25,437	23,361
Culture	89,629	66,935	70,738	50,735
Revolving Fund	(22)	150	17	(54)
Economic Development	32,154	32,281	26,327	26,049
Education	1,233,180	1,157,426	1,156,715	1,106,945
School Book Branch	92	(459)	2,355	57
Energy and Natural Resources	269,317	247,633	217,875	417,169
Revolving Fund	205	(50)	—	—
Environment	99,710	98,153	95,313	91,310
Water Resources Revolving Fund	(18)	184	51	(12)
Executive Council	127,173	130,073	131,339	124,856
Personnel Administration Office Revolving Fund	6	8	8	—
Federal and Intergovernmental Affairs	6,347	6,476	6,019	5,559
Hospitals and Medical Care	2,338,569	2,152,237	2,283,652	2,099,709
Housing	342,299	317,318	376,537	544,707
Labour	26,608	24,750	26,210	24,741
Manpower	189,823	145,614	82,693	93,485
Municipal Affairs	374,169	358,636	370,429	343,358
Public Works, Supply and Services	552,976	467,746	550,822	453,381
Revolving Fund	5,938	2,186	(11,265)	(983)
Recreation and Parks	118,610	113,418	108,566	95,365
Social Services and Community Health	1,282,086	1,180,094	1,209,325	1,080,711
Solicitor General	237,364	213,500	227,790	211,330
Tourism and Small Business	39,679	37,842	36,809	52,280
Transportation	883,219	802,078	842,247	851,047
Revolving Fund	(5,491)	(11,044)	(4,836)	(21,152)
Treasury	132,347	119,114	132,632	115,877
Statutory Appropriations	150,612	142,347	239,078	143,503
Utilities and Telecommunications	173,377	164,791	186,298	234,762
Gas Alberta Operating Fund	—	(886)	—	(332)
Salary Contingency	—	—	1,000	—
	9,988,267	9,244,709	9,586,088	9,320,629
Total	10,015,218	9,267,775	9,609,154	9,341,747
Summary				
Voted Appropriations	9,863,826	9,135,339	9,383,746	9,220,720
Statutory Appropriations	151,392	132,436	225,408	121,027
	10,015,218	9,267,775	9,609,154	9,341,747

General Revenue Fund
OPERATING AND CAPITAL EXPENDITURE
(thousands of dollars)

Table A5

	1985-86 Estimate		
	Operating	**Capital**	**Total**
Legislative Assembly	26,758	193	26,951
Government			
Advanced Education	815,538	123,831	939,369
Agriculture	211,307	8,582	219,889
Attorney General	133,447	895	134,342
Consumer and Corporate Affairs	20,747	3,962	24,709
Culture	53,119	6,510	59,629
Revolving Fund	(23)	1	(22)
Economic Development	32,095	59	32,154
Education	1,167,362	65,818	1,233,180
School Book Branch	(105)	197	92
Energy and Natural Resources	256,882	12,435	269,317
Revolving Fund	(30)	235	205
Environment	65,838	33,872	99,710
Water Resources Revolving Fund	(500)	482	(18)
Executive Council	125,019	2,154	127,173
Personnel Administration Office Revolving Fund	(4)	10	6
Federal and Intergovernmental Affairs	6,329	18	6,347
Hospitals and Medical Care	2,085,880	252,689	2,338,569
Housing	330,912	11,387	342,299
Labour	26,322	286	26,608
Manpower	189,483	340	189,823
Municipal Affairs	373,048	1,121	374,169
Public Works, Supply and Services	320,192	232,784	552,976
Revolving Fund	(16,421)	22,359	5,938
Recreation and Parks	60,374	58,236	118,610
Social Services and Community Health	1,279,970	2,116	1,282,086
Solicitor General	235,808	1,556	237,364
Tourism and Small Business	39,588	91	39,679
Transportation	192,561	690,658	883,219
Revolving Fund	(13,214)	7,723	(5,491)
Treasury	131,666	681	132,347
Statutory Appropriations	100,601	50,011	150,612
Utilities and Telecommunications	74,015	99,362	173,377
	8,297,806	1,690,461	9,988,267
Total	8,324,564	1,690,654	10,015,218
Summary			
Voted Appropriations	8,254,260	1,609,636	9,863,896
Statutory Appropriations	70,304	81,018	151,322
	8,324,564	1,690,654	10,015,218

General Revenue Fund **Table A6**
NON-BUDGETARY TRANSACTIONS[a]
(thousands of dollars)

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Receipts				
Repayments of loans and advances				
Government enterprises	40,040	53,721	40,170	44,985
Other	2,311	2,194	2,294	1,987
	42,351	55,915	42,464	46,972
Disbursements				
Loans and advances				
Government enterprises	63,400	52,250	90,600	365,167
Other	1,700	5,957	1,700	7,782
Long-term investments	6,236	50,550	58,250	46,021
	71,336	108,757	150,550	418,970
Net Receipts (Disbursements)	(28,985)	(52,842)	(108,086)	(371,998)

[a] Excludes debt transactions.

General Revenue Fund
REPORTED ASSETS, LIABILITIES AND NET ASSETS
March 31, 1984*
(thousands of dollars)

Table A7

	1984	1983
Assets		
Cash and term deposits	278,648	728,855
Accounts receivable	895,615	744,491
Investments - marketable securities	423,905	556,727
Investments - long term	116,158	96,137
Loans and advances to government enterprises	370,197	50,040
Loans and advances - other	44,680	42,552
	2,129,203	2,218,802
Liabilities and Net Assets		
Liabilities		
Accounts and loans payable	921,245	1,102,690
Unearned revenue and suspense	69,145	56,670
Unmatured debt	917,228	778,483
	1,907,618	1,937,843
Net Assets		
Net assets at beginning of year:		
As previously reported	287,978	2,335,754
Prior period adjustment	(7,019)	—
As restated	280,959	2,335,754
Budgetary surplus (deficit)	(59,374)	(2,054,795)
Net assets at end of year	221,585	280,959
	2,129,203	2,218,802
Guarantees and indemnities	438,012	384,123

* Readers should refer to the Public Accounts of Alberta for explanatory notes and supporting schedules.

General Revenue Fund
CHANGE IN UNMATURED DEBT
(thousands of dollars)

Table A8

Unmatured debt at March 31, 1984		917,228
Add:		
Issue of promissory notes, net	1,785	
Amortization of discount	62,125	
Other	1,347	
	65,257	
Deduct:		
Redemption of Treasury bills, net	212,713	
Sinking fund earnings	11,456	
Sinking fund contribution	3,834	
	228,003	
		(162,746)
Unmatured Debt at December 31, 1984		754,482

General Revenue Fund
GUARANTEES AND INDEMNITIES[a]
(thousands of dollars)

Table A9

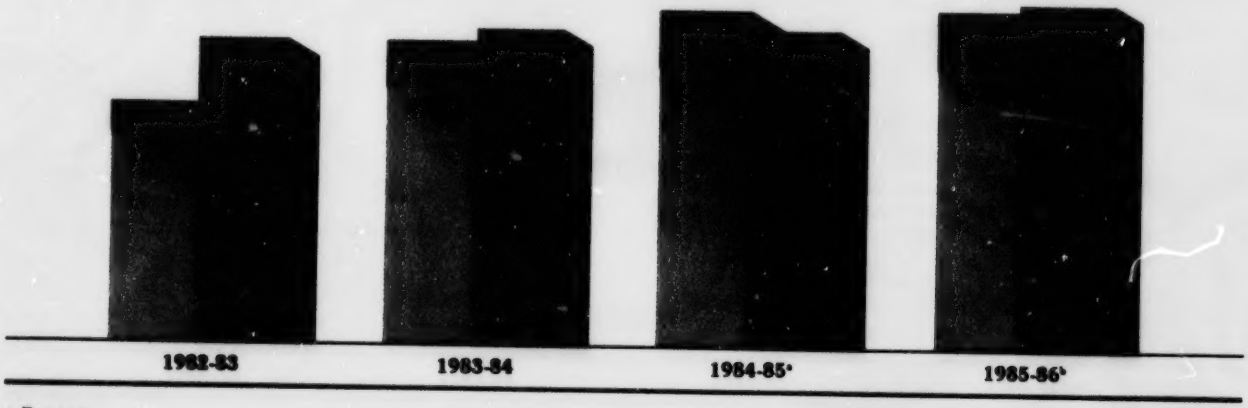
	At December 31	At March 31[b]	
	1984	1984	1983
Guaranteed Debenture Debt			
AEC Power Limited	218,599	221,690	237,474
Vencap Equities Alberta Ltd.	40,000	40,000	—
	258,599	261,690	237,474
Guaranteed Loans			
Students Loan Guarantee Act	87,585	85,253	65,568
AEC Power Limited	21,613	16,152	12,123
Agricultural Societies Act	43,287	15,390	6,113
Government Emergency Guarantee Act	35	13,993	14,331
Other	46,394	36,534	39,514
	198,914	167,322	137,649
Indemnities	—	9,000	9,000
Total	457,513	438,012	384,123

[a] Excludes guaranteed liabilities of government entities.

[b] Readers should refer to the Public Accounts of Alberta for additional details.

BUDGETARY REVENUE AND EXPENDITURE
(millions of dollars)

Chart A1

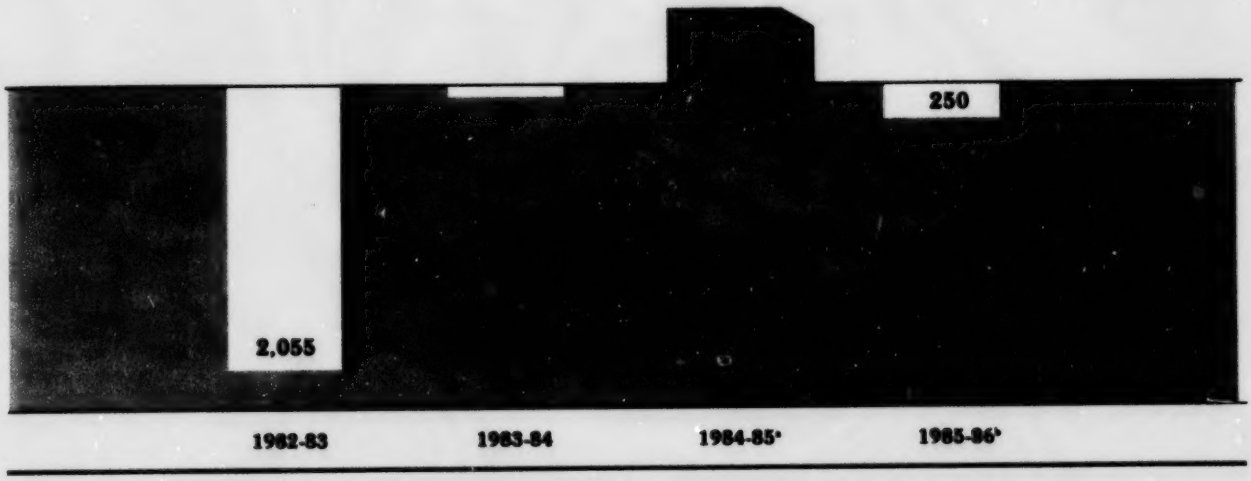


[a] Forecast
[b] Estimate

General Revenue
Heritage Fund Investment Income
Expenditure

BUDGETARY SURPLUS AND DEFICIT
(millions of dollars)

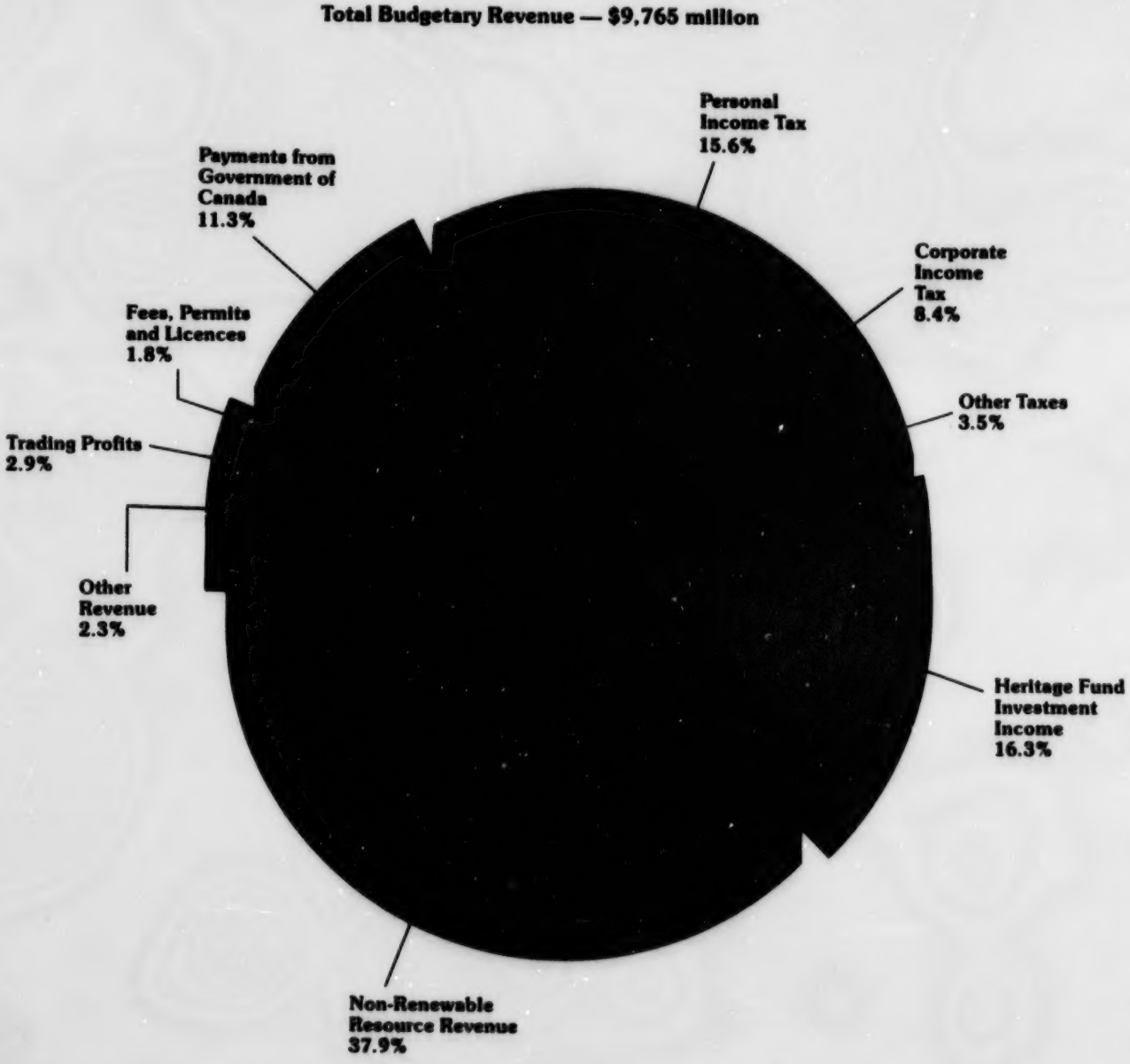
Chart A2



[a] Forecast
[b] Estimate

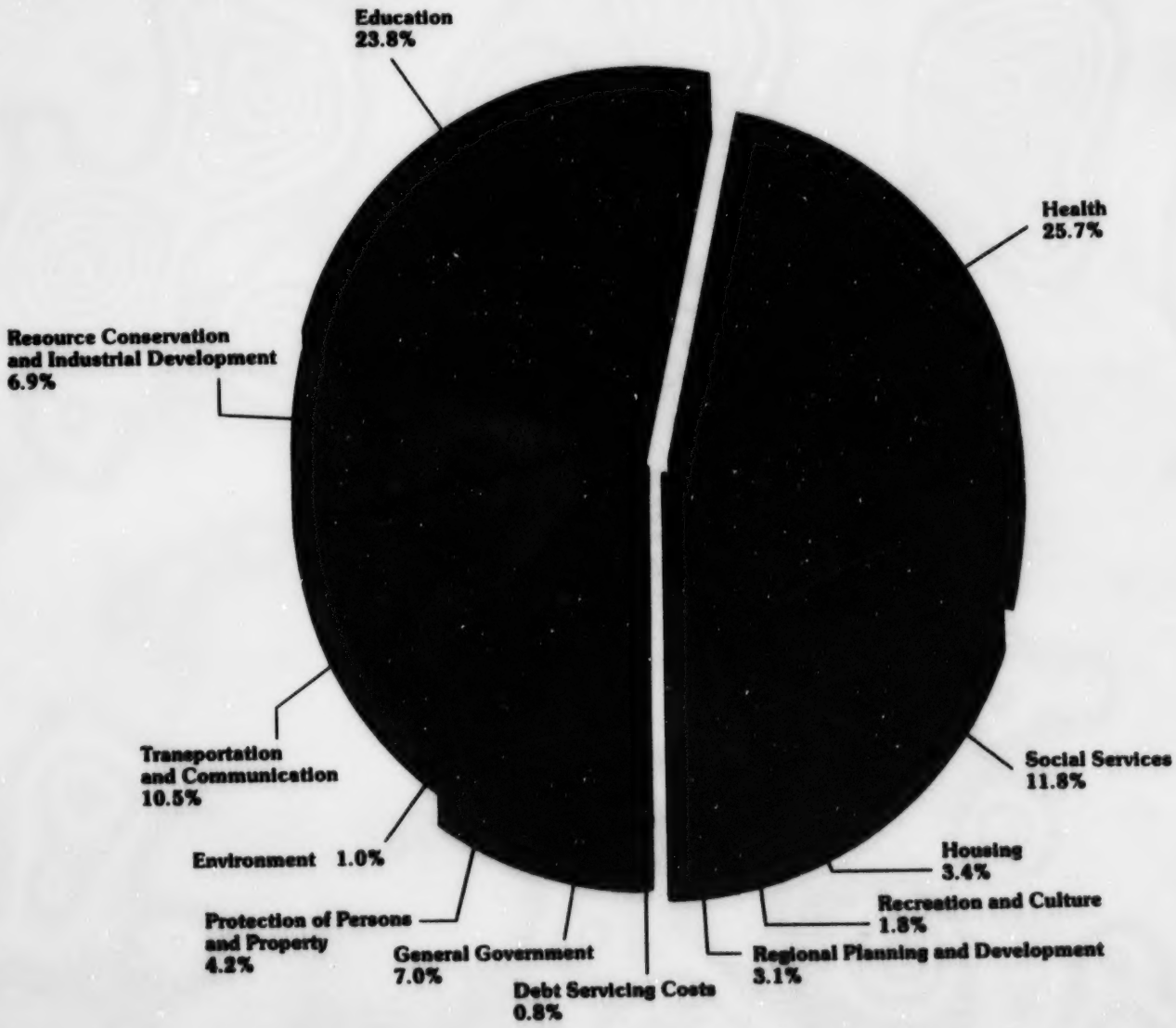
PERCENTAGE DISTRIBUTION OF BUDGETARY REVENUE BY MAJOR SOURCE, 1985-86 ESTIMATE

Chart A3


Total Budgetary Revenue — $9,765 million
Personal Income Tax 15.6%
Payments from Government of Canada 11.3%
Corporate Income Tax 8.4%
Fees, Permits and Licences 1.8%
Other Taxes 3.5%
Trading Profits 2.9%
Other Revenue 2.3%
Heritage Fund Investment Income 16.3%
Non-Renewable Resource Revenue 37.9%

PERCENTAGE DISTRIBUTION OF BUDGETARY EXPENDITURE BY MAJOR FUNCTION, 1985-86 ESTIMATE **Chart A4**

Total Budgetary Expenditure — $10,015 million



Tables and Charts

Tables

B1 Proposed Maximum Investments in Provincial Crown Corporations 49
B2 Sources and Applications of Funds 50

Charts

B1 Alberta Heritage Savings Trust Fund Net Investment Income 51
B2 Composition of Alberta Heritage Savings Trust Fund at March 31, 1985 52

Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund receives a portion of the province's non-renewable resource revenue. From 1976-77 to 1982-83, 30% of resource revenue was transferred to the Heritage Fund. Starting in 1983-84 the transfer was reduced to 15% in response to the province's budgetary requirements. This 15% allocation will continue in 1985-86 and is estimated at $677 million.

Since September 1982, all of the net investment income earned by the Heritage Fund has been transferred to the General Revenue Fund to help meet budgetary needs, continue the delivery of high quality services to Albertans and fund programs which aid Alberta's economic recovery. The Heritage Fund's net income is estimated at $1,590 million in 1985-86.

The Heritage Fund will continue to be a major source of financing for provincial Crown corporations. A resolution will be presented to the Legislature seeking authority for the Heritage Fund to make investments in three Crown corporations as set out in Table B1.

Estimates totalling $252 million in 1985-86 for 17 ongoing capital projects were approved in the 1984 fall session of the Legislature. Table B2 presents the estimate of the Heritage Fund's sources and applications of funds in 1985-86.

In the 1985 calendar year, the Alberta Municipal Financing Corporation is expected to continue to meet its capital financing requirements by borrowing from the Canada Pension Plan Investment Fund and in the capital market. Alberta Government Telephones will continue to meet its capital financing requirements in 1985 from market sources.

Alberta Heritage Savings Trust Fund
PROPOSED MAXIMUM INVESTMENTS IN PROVINCIAL CROWN CORPORATIONS
(thousands of dollars)

Table B1

	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
Alberta Agricultural Development Corporation	171,000	127,000	190,000	144,000
Alberta Mortgage and Housing Corporation	185,000	100,000	170,000	390,000
Alberta Opportunity Company	47,400	35,000	45,000	42,000
Alberta Government Telephones	—	—	—	15,000
Total	403,400	262,000	405,000	591,000

Alberta Heritage Savings Trust Fund
SOURCES AND APPLICATIONS OF FUNDS
(thousands of dollars)

Table B2

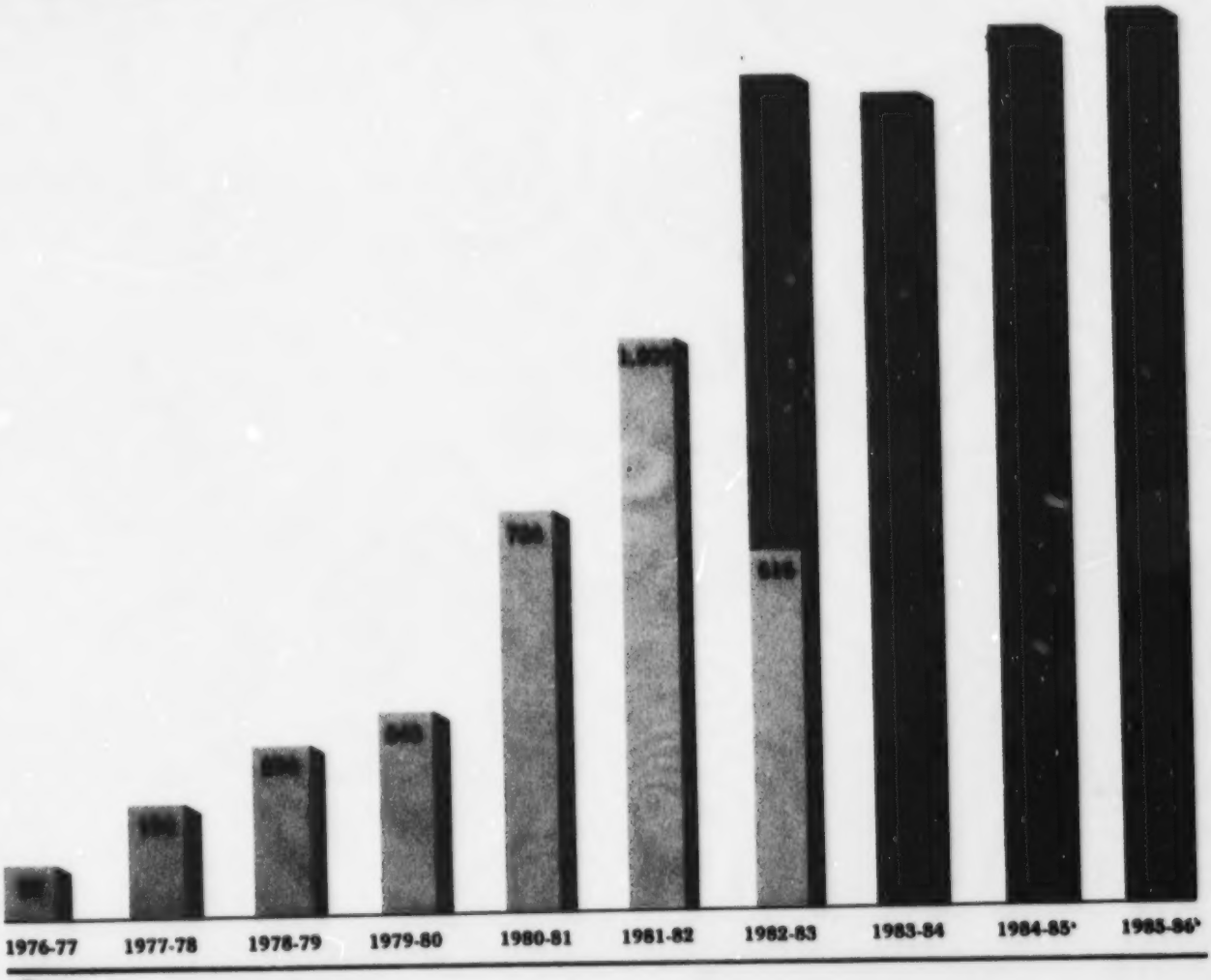
	1985-86 Estimate	1984-85 Forecast	1984-85 Estimate	1983-84 Actual
New Sources of Funds				
Non-Renewable Resource Revenue Transfer	[illegible]	689,000	651,000	720,402
Net Investment Income	[illegible]	1,580,000	1,530,000	1,469,217
Transfer of Investment Income to General Revenue Fund	[illegible]	(1,580,000)	(1,530,000)	(1,469,217)
Total Sources	[illegible]	689,000	651,000	720,402
Applications of Funds				
Capital Projects Division	[illegible]	250,200	293,400	529,718
Alberta Investment Division				
Alberta Agricultural Development Corporation	[illegible]	127,000	190,000	144,000
Alberta Mortgage and Housing Corporation	[illegible]	100,000	170,000	390,000
Alberta Opportunity Company	[illegible]	35,000	45,000	42,000
Alberta Government Telephones	[illegible]	—	—	15,000
Total Provincial Corporations	[illegible]	262,000	405,000	591,000
Other Investments[a]	[illegible]	65,000	13,000	106,505
Commercial Investment Division	[illegible]	2,500	—	370
Total Applications	[illegible]	579,700	711,400	1,227,593
Sources Less Applications	[illegible]	109,300	(60,400)	(507,191)
Repayments, Maturities and Disposals[b]	[illegible]	282,000	205,000	797,773
Provision for Non-Cash Items and Administrative Expenses	[illegible]	29,000	(35,000)	(44,652)
Decrease (Increase) in Marketable Securities at Cost	[illegible]	(420,300)	(109,600)	(245,930)
	[illegible]	(109,300)	60,400	507,191

[a] Includes investments in the Prince Rupert grain terminal, Syncrude and other corporate securities.

[b] Excludes Marketable Securities.

ALBERTA HERITAGE SAVINGS TRUST FUND NET INVESTMENT INCOME
(millions of dollars)

Chart B1

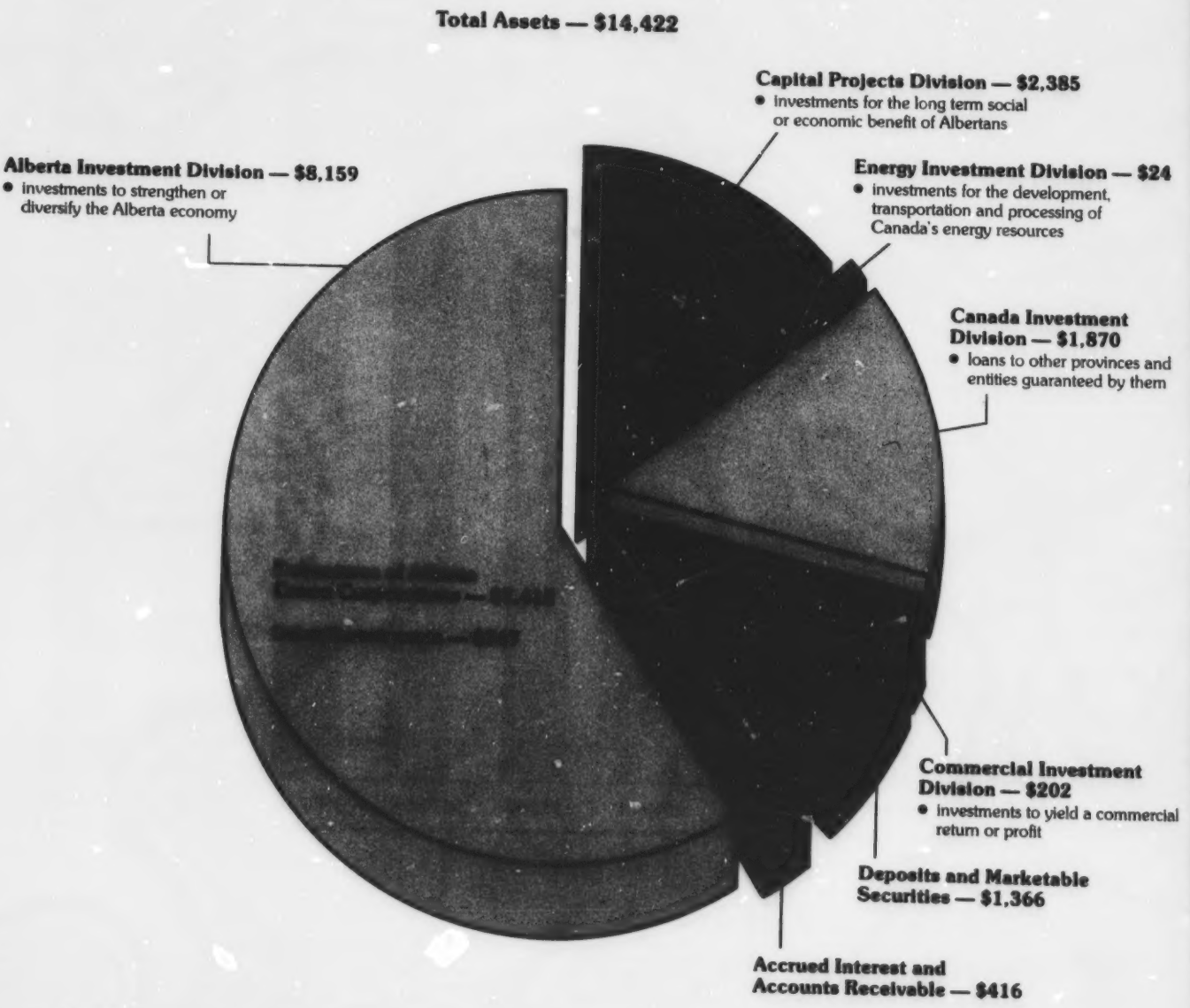


* Forecast
' Estimate

Net Investment Income Retained in the Heritage Fund
Net Investment Income Transferred to the General Revenue Fund

COMPOSITION OF ALBERTA HERITAGE SAVINGS TRUST FUND AT MARCH 31, 1985*
(millions of dollars)

Chart B2


Total Assets — $14,422
Capital Projects Division — $2,385
• investments for the long term social or economic benefit of Albertans
Energy Investment Division — $24
• investments for the development, transportation and processing of Canada's energy resources
Canada Investment Division — $1,870
• loans to other provinces and entities guaranteed by them
Commercial Investment Division — $202
• investments to yield a commercial return or profit
Deposits and Marketable Securities — $1,366
Accrued Interest and Accounts Receivable — $416
Alberta Investment Division — $8,159
• investments to strengthen or diversify the Alberta economy

* Forecast

Tables

C1 Alberta Agricultural Development Corporation 57
C2 Alberta Mortgage and Housing Corporation 59
C3 Alberta Opportunity Company 61
C4 Alberta Municipal Financing Corporation 63

Provincial Crown Corporations – Capital Budgets

The 1985-86 capital budgets and financing requirements of four major provincial Crown corporations are contained in this appendix: Alberta Agricultural Development Corporation, Alberta Mortgage and Housing Corporation, Alberta Opportunity Company and Alberta Municipal Financing Corporation. The first three of these corporations receive direct support from the General Revenue Fund enabling them to deliver their programs to Albertans at less than full cost. Details of these contributions can be found in the 1985-86 Government Estimates.

To carry out their capital programs, approval of the Legislative Assembly will be sought to allow the Alberta Heritage Savings Trust Fund to invest in debt securities to be issued by the Alberta Agricultural Development Corporation, the Alberta Mortgage and Housing Corporation and the Alberta Opportunity Company. These corporations have borrowed from the Heritage Fund in previous years. The Alberta Municipal Financing Corporation will meet its capital requirements by issuing debentures to the Canada Pension Plan Investment Fund and by borrowing in capital markets.

Alberta Agricultural Development Corporation

The Alberta Agricultural Development Corporation provides loans and loan guarantees to farmers and agribusinesses. The corporation's programs are designed to foster the establishment and maintenance of family farms and improvements in their productivity, and to encourage local processing of the province's agricultural products.

During 1985-86 the corporation estimates that it will extend $171 million in direct loans to agricultural producers and agribusinesses. Direct loans are made at preferred rates of interest and some borrowers are eligible for incentive rebates of part of their interest costs.

The corporation's largest program is the Beginning Farmer Program which makes loans and incentive rebates to individuals whose farms are in an early stage of development. Loans under this program are expected to total $137.9 million in 1985-86. Other direct farm and agribusiness loans are estimated to amount to $33.1 million. To finance these activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $171 million in debentures of the corporation in 1985-86.

In order to provide incentive rebates and other subsidies to its borrowers and to cover operating expenses in 1985-86, the corporation will receive a budgetary appropriation of $101.5 million through the Department of Agriculture.

ALBERTA AGRICULTURAL DEVELOPMENT CORPORATION
(thousands of dollars)

Table C1

	1985-86 Estimate	1984-85 Forecast
Programs		
Direct Lending:		
Beginning Farmer Loans	137,900	110,000
Part A Farm Loans	19,200	7,000
Part B Farm Loans	6,900	1,000
Agribusiness Loans	7,000	2,000
Total Direct Lending	171,000	120,000
Loan Guarantees:		
General Guarantee Agreements		
Alberta Farm Development Loans	116,000	85,000
Specific Guarantee Agreements		
Farm Loans	31,700	8,400
Agribusiness Loans	15,000	2,000
Total Guarantees	162,700	95,400
Financing		
Cash Required for:		
Programs	175,200	141,800
Debenture repayments	23,000	19,500
Total Cash Requirements	198,200	161,300
Sources of Financing:		
Decrease in cash and receivables	9,300	20,400
Loan repayments and guarantee recoveries	17,900	13,900
Alberta Heritage Savings Trust Fund	171,000	127,000
Total Sources	198,200	161,300

Alberta Mortage and Housing Corporation

On August 1, 1984, the Alberta Housing Corporation and the Alberta Home Mortgage Corporation were merged into the Alberta Mortgage and Housing Corporation. The new corporation's housing programs are limited to two areas: construction of rental housing units for senior citizens and low to middle income Albertans, and mortgage financing to provide affordable rental and ownership housing in the private market for low and middle income Albertans.

Capital commitments for construction and mortgage lending programs will total $93 million for 1,520 units and 400 mobile home stalls in 1985-86. A further $24 million will be committed for land and development programs.

Through its housing construction programs, the corporation is expected to make commitments of $20.5 million for 335 senior citizens units in 1985-86. These include apartments for self-sufficient senior citizens and lodge accommodation for seniors who are healthy and active but who no longer wish to maintain an independent household.

Of its mortgage lending programs, the Family Home Purchase Program provides subsidized mortgages to low and middle income home purchasers. Under this program, the corporation will commit $34 million in 1985-86 to provide 600 mortgage loans for the purchase of existing homes throughout Alberta and for the construction of new housing units in smaller centres.

In addition to its capital programs, the corporation's new Rent Supplement Program will provide subsidized accommodation to 200 low income families by utilizing vacant, privately owned rental accommodation rather than through the production of additional units under the Community Housing Program.

The corporation also expects to insure mortgages made available by private lenders on 2,000 mobile homes.

To finance the corporation's capital activities, the Legislative Assembly will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $185 million in debt securities of the corporation.

In addition to its capital funding for 1985-86, the corporation will receive a budgetary appropriation of $268.5 million through the Department of Housing to meet subsidy and operating costs. The subsidies available through the corporation's programs to eligible borrowers and renters help make housing affordable for many thousands of Albertans.

ALBERTA MORTGAGE AND HOUSING CORPORATION

Table C2

(thousands of dollars)

	1985-86 Estimate	(# units)	1984-85 Forecast	(# units)
Capital Programs				
Housing Construction:				
Staff Housing	1,000	10	1,000	9
Community Housing	3,500	50	3,000	40
Senior Citizens Lodges	4,500	85	6,000	122
Senior Citizens Self-Contained	16,000	250	26,000	399
Transitional Housing	2,000	25	1,000	13
Total Housing	27,000	420	37,000	583
Mortgage Lending - Home Ownership:				
Alberta Family Home Purchase Program	34,000	600	51,000	1,000
Rural and Native Housing	14,000	200	19,000	300
Total Home Ownership	48,000	800	70,000	1,300
Mortgage Lending - Rental:				
Modest Apartment Program	12,000	300	6,000	200
Mobile Home Parks	6,000	400 stalls	1,500	100 stalls
		300 units		200 units
Total Rental	18,000	400 stalls	7,500	100 stalls
Land and Development Programs:				
Residential Land Program	13,000	—	8,700	—
Industrial Land Program	1,000	—	2,300	—
Revolving Trunk Servicing Program	10,000	—	5,000	—
Total Land and Development Programs	24,000	—	16,000	—
		1,520 units		2,083 units
Total Capital Programs	117,000	400 stalls	130,500	100 stalls
Other Programs				
Rent Supplement	—[a]	200	—	—
Mortgage Insurance – Mobile Homes	—	2,000	—	1,700
Total Other Programs	—	2,200	—	1,700
Financing				
Cash Required for:				
Capital programs	111,400		154,000	
Debenture repayments	127,700		182,000	
Short-term notes, net	95,000		(50,000)	
Total Cash Requirements	334,100		286,000	
Sources of Financing:				
Mortgage repayments	120,000		160,400	
Land sales	7,000		5,000	
Decrease in cash and receivables	10,000		20,500	
General Revenue Fund budgetary appropriation for debt retirement[b]	7,700		6,600	
Advances from the General Revenue Fund, net	4,400		(6,500)	
Alberta Heritage Savings Trust Fund	185,000		100,000	
Total Sources	334,100		286,000	

[a] $350,000 in operating costs included in Vote 4, Department of Housing.

[b] Included in Vote 4, Department of Housing.

Alberta Opportunity Company

The Alberta Opportunity Company provides loans, loan guarantees and financial guidance to small businesses throughout the province in order to promote the growth and diversification of the provincial economy. Loans are extended on a "lender of last resort" basis with priority given to businesses located outside the major centres.

The company expects to make $34 million in loan commitments to small Alberta businesses in 1985-86. To finance this lending activity and to repay debentures issued in previous years, the Legislature will be requested to approve the investment by the Alberta Heritage Savings Trust Fund of up to $47.4 million in debentures of the company.

The company will also receive a budgetary appropriation of $10.2 million from the Department of Tourism and Small Business in 1985-86. These funds will enable the company to deliver its lending programs at less than their full cost.

ALBERTA OPPORTUNITY COMPANY
(thousands of dollars)

Table C3

	1985-86 Estimate	1984-85 Forecast
Programs		
Direct Lending	[illegible]	31,000
Loan Guarantees	[illegible]	2,300
Financing		
Cash Required for:		
Direct lending	[illegible]	29,900
Debenture repayments	[illegible]	36,000
Operations	[illegible]	1,300
Total Cash Requirements	[illegible]	67,200
Sources of Financing:		
Grant from the General Revenue Fund	[illegible]	10,100
Loan repayments	[illegible]	22,100
Alberta Heritage Savings Trust Fund	[illegible]	35,000
Total Sources	[illegible]	67,200

Alberta Municipal Financing Corporation

The Alberta Municipal Financing Corporation makes loans to municipalities, school systems and hospitals at interest rates based on its cost of obtaining funds. The corporation's borrowers benefit from its access to the Canada Pension Plan Investment Fund and from a provincial government guarantee of the corporation's borrowings.

In the 1985 calendar year, the corporation expects to lend $425 million to Alberta municipalities, school districts and hospital boards, compared to $554 million in 1984. This 1985 lending activity will be financed by borrowing an estimated $257 million from the Canada Pension Plan Investment Fund and $123 million from market sources.

Through the Municipal Debenture Interest Rebate Program, which is funded by a budgetary appropriation of the Department of Municipal Affairs, the government will provide municipalities with grants totalling $122 million to reduce effective interest costs on many of the corporation's outstanding loans.

ALBERTA MUNICIPAL FINANCING CORPORATION
(thousands of dollars)

Table C4

	1985 Estimate	1984 Actual
Programs		
Direct Lending:		
Municipal Loans	304,500	435,654
School Loans	120,000	118,293
Hospital Loans	500	22
Total Direct Lending	425,000	553,969
Financing		
Cash Required for:		
Direct lending	425,000	553,969
Debt repayment including sinking fund contributions	155,000	147,414
Repayment of short-term notes, net	15,000	17,364
Other	50,000	36,988
Total Cash Requirements	645,000	755,735
Sources of Financing:		
Loan repayments	220,000	229,119
From sinking fund on debt retirement	45,000	40,000
Canada Pension Plan Investment Fund	257,000	338,491
Capital markets	123,000	148,125
Total Sources	645,000	755,735

Tables and Charts

Tables

D1 Summary of Key Economic Indicators, Alberta 68

Charts

D1 Construction Expenditure Per Capita, 1984 67
D2 Total Footage Drilled, Alberta 69
D3 Natural Gas Sales, Alberta 70
D4 Manufacturing Shipments, Alberta 72
D5 Employment Per Thousand Working Age Population, 1984 73
D6 Consumer Price Index, 1984 74

Alberta Economic Situation and Outlook

1984 saw the recovery of most sectors of the Alberta economy.

Increased oil and natural gas export volumes, robust levels of drilling activity, and continued expansion in some segments of the manufacturing and service sectors were key positive factors. Available indicators suggest that Alberta's real gross domestic product stabilized in 1984. With a lean economy and strong business confidence, Alberta is well positioned to benefit from opportunities. Alberta's real economic growth in 1985 should be in the 2 to 3% range, better than many of Canada's provinces.

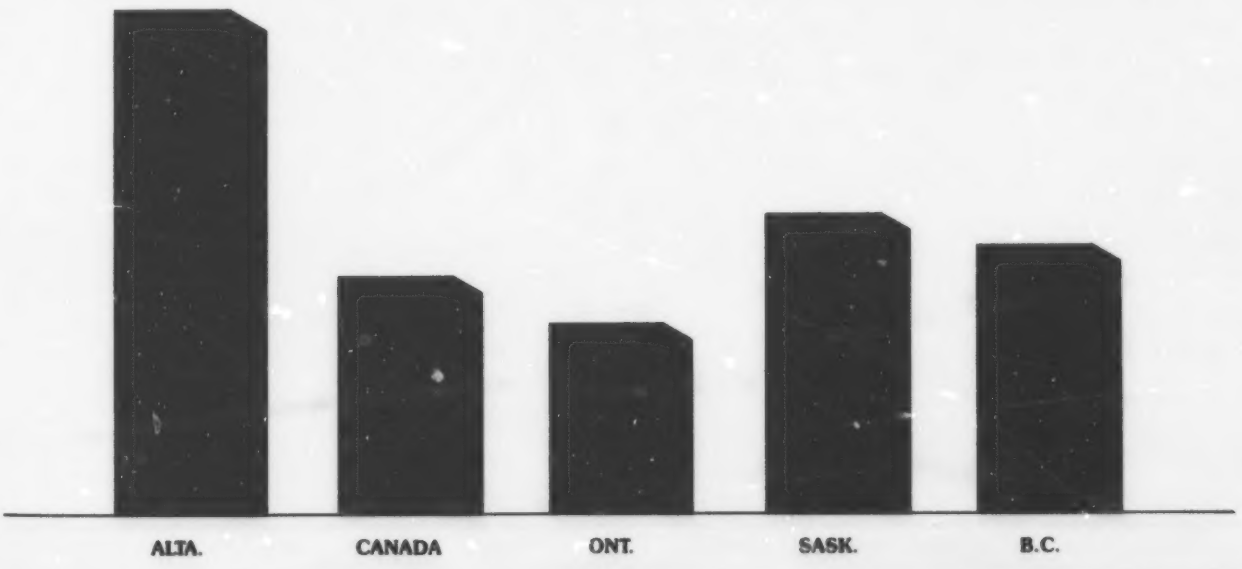
The oil and gas industry is a principal driving force behind Alberta's economic growth. In 1984 the recovery in the petroleum industry gained momentum. Production increased substantially and drilling activity returned to almost the 1981 level. Growth in both production and drilling activity should continue in 1985.

The correction in the apartment, housing and office building sector of the construction industry continued in 1984 and offset most of the increased activity of other industries. Despite decreased activity in this segment of the Alberta construction industry, the level of construction expenditure per capita continues to exceed that in the rest of Canada by a wide margin, as shown in Chart D1.

Since so much of Alberta's production is for export, external factors have a powerful effect on the province's economic outlook. In particular, there are significant uncertainties with regard to today's

CONSTRUCTION EXPENDITURE PER CAPITA, 1984
(dollars)

Chart D1



oil and gas markets. World oil prices drifted downward in the spot markets and the OPEC marker price was reduced slightly in January. Current world prices will be fragile, particularly through mid-1985, but domestic oil price deregulation and a lower Canada-United States exchange rate should be balancing factors for Alberta producers.

World oil and Canadian export gas are priced in terms of the American dollar. The extraordinary strength of the United States dollar has helped the Alberta industry's cash flow although it has also contributed to soft world demand for oil. The introduction of flexible pricing for natural gas exports to the United States is also positive. It has set off a round of buyer-seller negotiations which have already resulted in substantially higher contracted natural gas volumes.

The forecast of relatively strong growth in Alberta in 1985 assumes continued growth in the economies buying Alberta exports, principally the United States and the rest of Canada. Changes in United States or Canadian monetary policy could alter Alberta's outlook. Lower interest rates would spur investment and consumption.

Alberta's economy is fundamentally strong:

— Oil well drilling activity has experienced a significant increase.

— Petroleum lease and licence bonus payments have reached their highest level since 1980.

— In 1984, 640 out of every 1,000 Albertans 15 years of age and over had jobs, the highest number in Canada.

— Construction expenditure per person is the highest in Canada and is forecast to remain so.

— The inflation rate in Alberta is substantially lower than the Canadian average.

— Retail sales per person are the highest in Canada.

— Albertans pay a smaller portion of their

SUMMARY OF KEY ECONOMIC INDICATORS, ALBERTA **Table D1**

	1983[a]	1984[b]	1985[b]
Real Gross Domestic Product (per cent change)	-1.8	-0.5 to 0.5	2.0 to 3.0
Real Investment (per cent change)	-19.7	-17.0 to -14.0	4.0 to 7.0
Real Consumer Expenditure (per cent change)	0.8	-0.5 to 0.5	0 to 1.0
Real Exports (millions of 1971 dollars)	3,893	4,090 to 4,130	4,150 to 4,250
Population (thousands)	2,365.5	2,361.6	2,364.0
Inflation Rate	5.2	2.6[a]	3.0 to 4.0
Unemployment Rate	10.8	11.2[a]	11.0 to 11.5

[a] Actual

[b] Alberta Treasury forecast

income in provincial taxes than residents of other provinces.

Table D1 provides a summary of key indicators of Alberta's economy.

Oil and Gas

Production of crude oil and equivalent increased by over 5% in 1984 to almost 1.3 million barrels per day. Conventional oil capacity rose because of more efficient scheduling of gas plant turnarounds, higher minimum production allowances, increases in marginal development and infill drilling, and additional enhanced recovery projects. Conventional crude oil output was close to capacity. Synthetic oil output fell because of the fire in August which caused a partial shutdown of the Syncrude operation for several months. The National Energy Board's decision to allow heavy oil exports to be priced competitively with other sources of supply stimulated exports to the United States.

The industry's financial position continued to improve through most of 1984 due to the incentives provided under the Alberta Oil and Gas Activity Program, higher wellhead prices resulting from the widened application of the new oil reference price, the appreciation in the value of the United States dollar and higher oil and gas sales volumes. As shown in Chart D2, drilling activity increased strongly in 1984, with emphasis on medium depth oil development regions. Eligibility for the new oil reference price encouraged marginal development and infill drilling. Changes in energy taxes and royalties encouraged enhanced recovery, in situ oil sands and heavy oil projects.

Conventional crude oil output may decline slightly in 1985 but, with the Syncrude facility back on stream, synthetic output should rise by an offsetting amount. Increased output from experimental projects should result in a total crude oil production increase in 1985.

Natural gas production rose by over 8% in 1984 to about 2.4 trillion cubic feet, as shown in

TOTAL FOOTAGE DRILLED, ALBERTA
(thousands of feet)

Chart D2

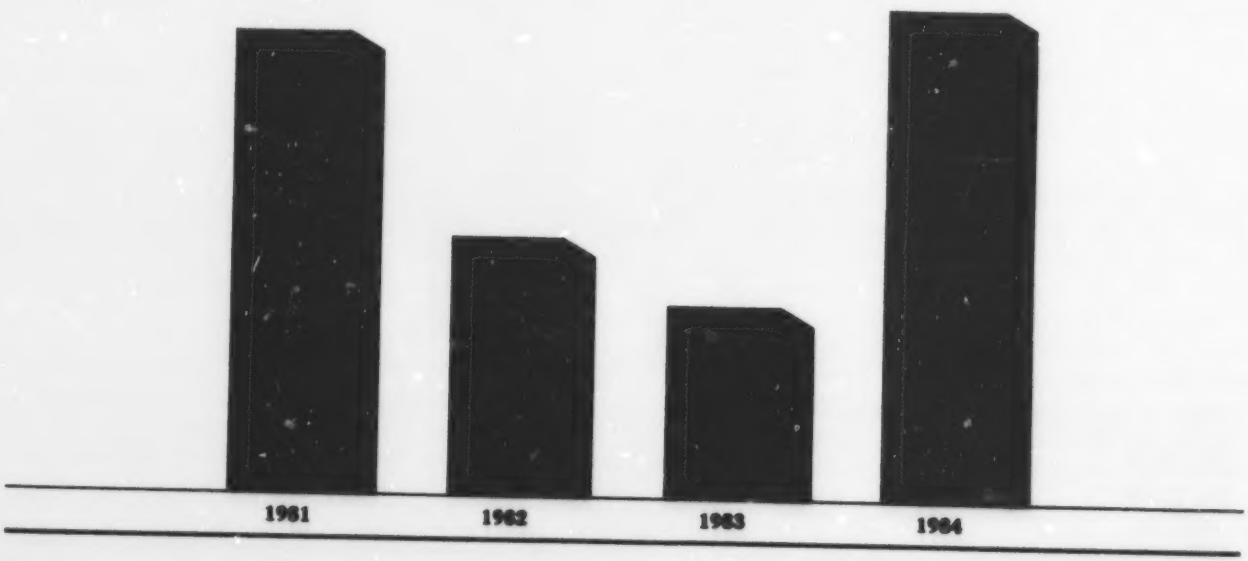


Chart D3. Domestic sales rose in both Alberta and the rest of Canada. Increased fuel and feedstock requirements in the petrochemical industry stimulated industrial sales in Alberta. Increased sales in the other provinces were broadly based with a major gain in industrial sales. Weather patterns in eastern Canada also contributed to these gains. New National Energy Board regulations, effective November 1, 1984, allowing market sensitive pricing helped producers to expand their export sales.

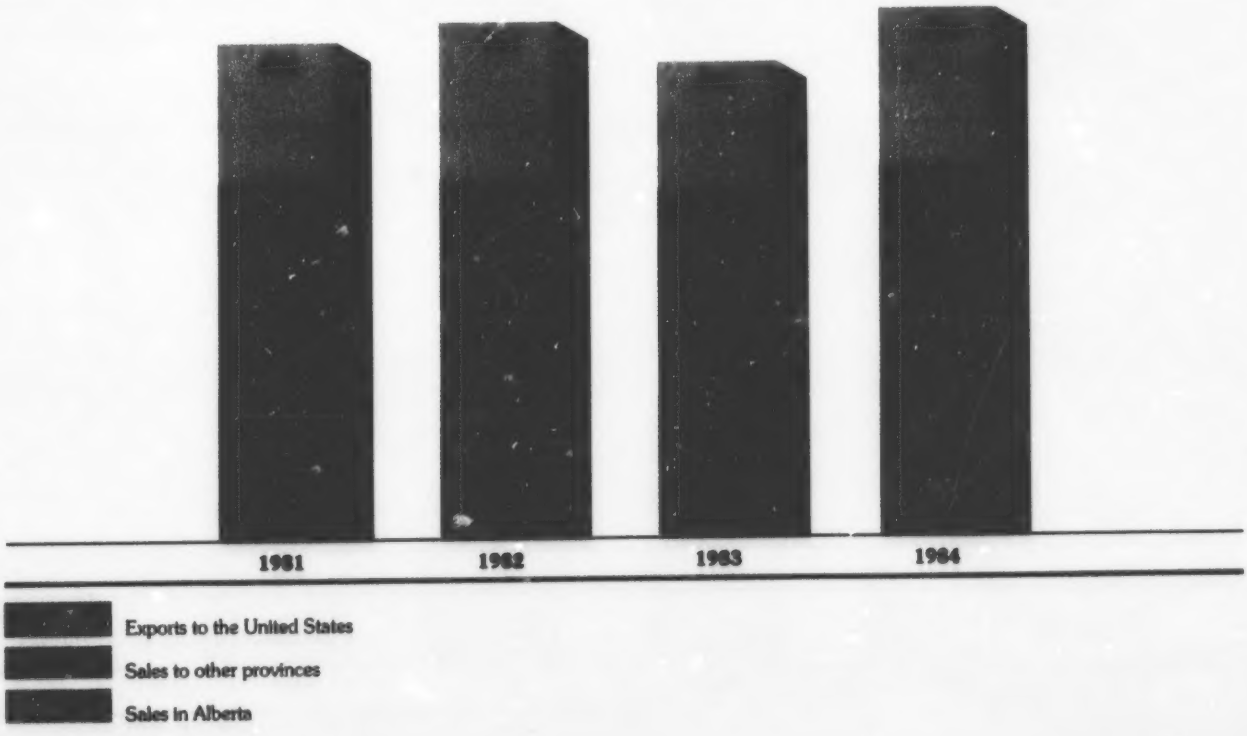
Natural gas production is expected to improve significantly in 1985. Sales in Alberta should show a moderate increase led by increased gas consumption by the petrochemical industry. Sales in the rest of Canada should also show a moderate increase because of the domestic incentive pricing policy and continued economic growth. The largest part of the gain will be in export sales to the United States. In terms of producer revenue, lower United States export prices will be offset by the large increase in sales volumes and the lower Canada-United States exchange rate.

Agriculture

Adverse weather conditions significantly reduced 1984 agricultural output. A serious drought together with an early snow cover reduced crop yields in most of southern Alberta. Excessive autumn

NATURAL GAS SALES, ALBERTA
(billions of cubic feet)

Chart D3



rainfall and early snow reduced crops in northern Alberta. Wheat production in 1984 fell to about 4.9 million tonnes from 6.8 million in 1983. Production of most other grains also dropped. On the other hand, canola production increased.

Grain prices were generally weak with sluggish world grain markets resulting from depressed demand in developing countries and extensive subsidization of agricultural products by most producing nations. Canola prices were an exception to the general trend. Overall, 1984 cash receipts from crops remained at about their 1983 levels because of increases in canola receipts and payments of over $250 million from crop insurance and the Western Grain Stablization Plan.

Normal weather conditions in 1985 would improve crop volumes. Prices of major grains will probably stabilize. However, farm cash receipts may soften in 1985 as Canadian Wheat Board deliveries reflect the effects of the 1984 drought.

Cash receipts for cattle increased in 1984 due to generally higher prices. Hog production increased, offsetting sluggish prices. Both cattle and hog prices will probably average higher in 1985, but profit margins will remain relatively low until feed costs decline.

Low prices, high interest rates, rising operating expenses and the 1984 drought are putting downward pressure on net farm incomes. Total net farm income during 1984 amounted to about $275 million, or 7% of total farm cash receipts. Some farmers are currently experiencing financial difficulties.

Other Primary Industries

Alberta lumber production in 1984 exceeded one billion board feet for the second consecutive year. Low profit margins will probably continue in 1985. In contrast, pulp and paper prices are firm and market demand strong. This situation should continue through 1985.

Alberta's 1984 coal production set a new record of over 26 million tonnes. Low prices, international over-capacity and increased competition will be a challenge to the further penetration of export markets.

Manufacturing and Processing

Manufacturing and processing continued to expand during 1984. The nominal value of manufacturing shipments, as shown in Chart D4, regained the ground lost during the downturn and exceeded the $13.3 billion record set in 1981.

The value of shipments in the petroleum and coal products industry continued its unbroken trend of significant real growth, expanding to $3.8 billion. Alberta's refining capacity increased substantially in 1984 with the completion of the new Scotford facility and the expansion of two Edmonton-area refineries. Alberta refineries are highly competitive. 1985 production levels should exceed those of 1984.

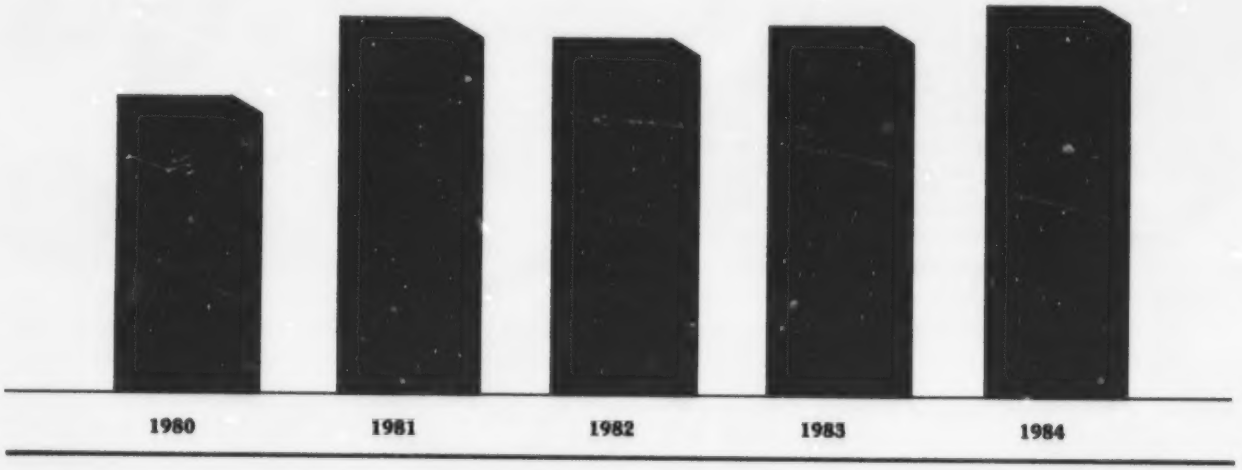
The value of shipments in the chemical products industries grew to about $1.6 billion in 1984. Three large petrochemical plants came on stream in 1984 with one more scheduled to start production in mid-1985. The substantial increase in ethylene production capacity due to these plants should, together with the new ethane feedstock price equalization program, allow large production increases in 1985 and higher natural gas sales.

The value of shipments in the food and beverage industries grew to about $4 billion in 1984. The food and beverage industries as a whole should continue to perform well in 1985.

The value of shipments in the primary metals industries grew strongly in 1984, although shipments of the metal fabricating and the construction- dependent non-metallic mineral product industries continued to soften. Shipments in all of these industries should grow in 1985.

MANUFACTURING SHIPMENTS, ALBERTA
(millions of dollars)

Chart D4



Construction

The industrial, institutional and engineering segment of the construction industry held up in 1984. However, the housing and office building construction component fell to lower levels.

The first segment of Alberta's construction industry includes construction of schools, hospitals, public works, industrial plants and oil and gas related construction works. Activity was sustained by a high level of drilling and by major projects such as the Syncrude expansion and Suncor upgrading, ESSO Resources' heavy oil extraction facilities, petrochemical plant construction and enhanced oil recovery projects. This part of the construction industry should expand by about 5% this year.

Housing starts numbered 7,295 in 1984. A supply of housing units has remained on the market due to continued net migration from the province and the unrealistically high 1980-81 boom speculation. A large proportion of housing starts took place in a number of northern communities that have continued to experience strong population growth. Apartment vacancy rates have started to decline in major Alberta centres, which should lead to slightly higher rental construction by late 1985. Total housing starts will likely show a small increase in 1985. The excess inventory of commercial office space is being absorbed.

Services

The service producing sector comprises five industries: transportation, communication and other utilities; wholesale and retail trade; finance, insurance and real estate; community, business and personal service; and public administration and defence. Fluctuations in output and employment in these industries is typically less pronounced than in goods producing industries since output of services tends to depend on the overall size of the economy and the population base.

Most service producing industries are, by nature, relatively labour intensive, so an examination of employment is an indicator of trends in these industries. Employment in the service producing industries in Alberta averaged 793 thousand in 1984, about the same as in 1983. However, per-

formance was uneven with the community, business and personal service sector showing employment growth and the trade and finance sector registering a drop in employment.

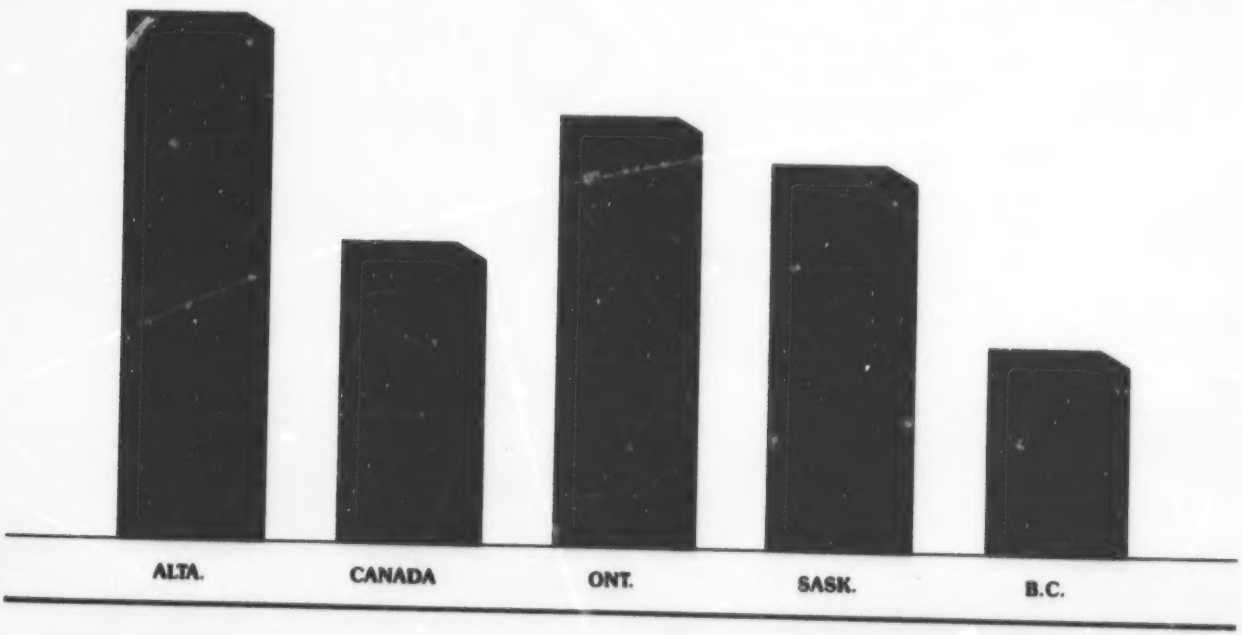
Population and Labour Market

There was an increase in the proportion of the working age population choosing to enter the labour force in 1984. The participation rate rose to 72.1%, just 0.2 percentage points below the record set in 1981. The total number of persons employed in Alberta stabilized but the number of jobs per thousand population age 15 years and over remains higher in Alberta than any other province, as shown in Chart D5. The unemployment rate averaged 11.2% in 1984. There was a net outflow of migrants for 1984, leading to a leveling of the total provincial population. In 1985 net out-migration should fall significantly and population growth will resume. Labour market conditions should also improve in 1985. Total employment will rise with a resumption of growth in Alberta's gross domestic product and the rate of unemployment should generally track the national average.

Wage increases continued to moderate in 1984, remaining below both the Canadian average and inflation. Employers have continued to show a strong determination to stabilize or reduce real wage costs. Wage stability has improved Alberta's competitiveness although Alberta wage levels remain high in relation to those in the rest of Canada.

EMPLOYMENT PER THOUSAND WORKING AGE POPULATION, 1984

Chart D5

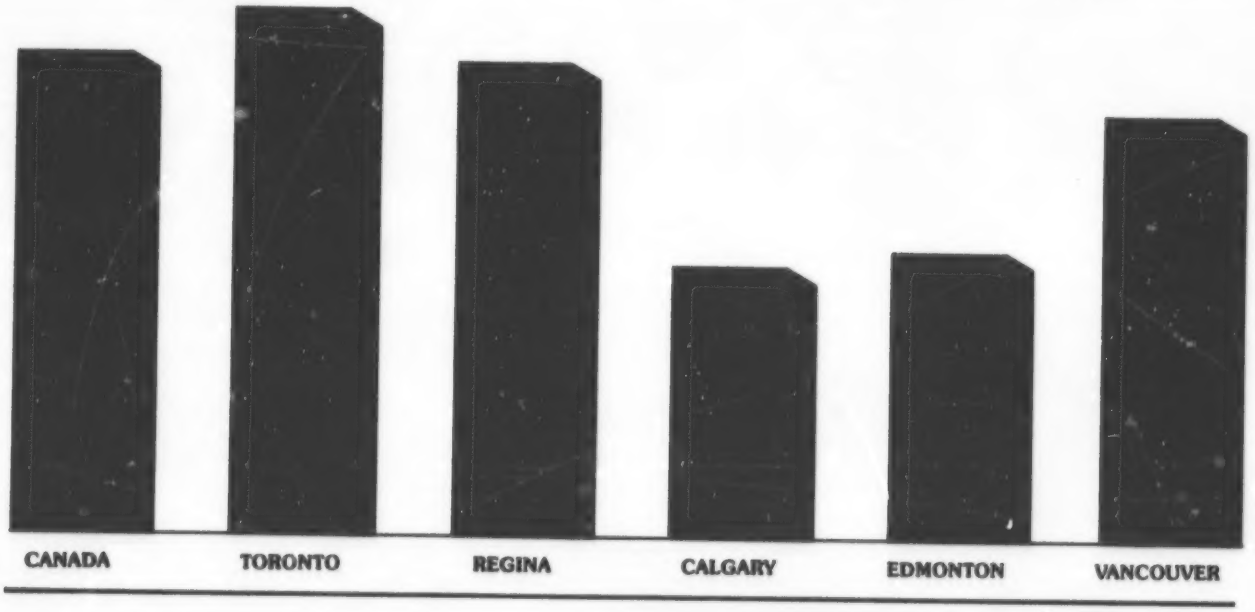


Continued wage restraint coupled with marginal overall employment growth will likely lead to stabilized real wages in 1985. Some positive growth in consumer expenditure is expected as the overall economy improves and confidence builds. Retail sales per capita in Alberta remain the highest in Canada.

Alberta's inflation rate remained substantially below the Canadian average during 1984 at 2.6% compared to 4.4% for Canada, as shown in Chart D6. Inflation in Alberta is expected to remain below the Canadian average in 1985.

CONSUMER PRICE INDEX, 1984
(percentage change)

Chart D6



Enquiries relating to the Alberta manufacturing and processing deduction should be directed to

Interpretations and Appeals Division
Alberta Corporate Tax Administration
Alberta Treasury
Sir Frederick W. Haultain Building
9811-109 Street
Edmonton, Alberta
T5K 0C8

Phone 427-9425.

The New Alberta Manufacturing and Processing Tax Reduction

Effective April 1, 1985 and continuing for 5 years, corporations with manufacturing and processing operations in Alberta will be eligible for a tax reduction. The tax rate applicable to large corporations will be reduced from 11% to 5% on their income from these operations. Corporations already paying tax at the small business rate of 5% and with manufacturing and processing as their primary activity will benefit from a tax holiday.

The tax reduction will be structured as a deduction from tax otherwise payable, similar to the federal manufacturing and processing deduction. Every effort will be made to keep the reduction simple by using existing terms and definitions.

This appendix outlines how the Alberta manufacturing and processing tax reduction will work. Taxpayers are advised to consult the forthcoming legislation to determine their eligibility under this program.

The first step is to determine if the corporation is engaged in manufacturing and processing. The second is to determine the profits from these activities. The final step is to calculate the reduction in tax payable on manufacturing and processing profits and subtract it from tax otherwise payable.

Step One: Eligible Manufacturing and Processing Activity

Manufacturing and processing activity carried on within Alberta which is currently eligible for the federal tax reduction will be eligible for the Alberta tax reduction.

Any activity generally thought of as manufacturing and processing will be eligible if carried on in Alberta. For example, metal fabrication, millwork and food processing are to be included. However, the following activities excluded from the federal program will also be excluded from Alberta's program:

- farming or fishing,
- logging,
- construction,
- operating an oil or gas well or processing heavy crude oil into crude oil,
- mining,
- processing a mineral ore to the prime metal stage,
- producing industrial minerals other than sulphur produced by processing natural gas,
- producing or processing electrical energy or steam for sale,
- processing gas by a public utility, or
- the manufacturing or processing activity of a corporation where the activity provides less than 10% of the corporation's gross revenue from all active businesses carried on in Canada.

Step Two: Determination of Manufacturing and Processing Profits in Alberta

In order to encourage manufacturing and processing activity within Alberta, the tax reduction is provided only on income earned from Alberta-based activity. However, corporations often have multifaceted operations and do not segregate the income from each activity in calculating the income on which tax is paid. To do so would be difficult and costly. To simplify the determination of manufacturing and processing profits, special rules have been developed for large and small corporations.

A. Large Corporations

The following formula will be used to isolate a large corporation's Alberta manufacturing and processing profits from its other income. The formula recognizes that the proportion of the corporation's total profits which are from manufacturing and processing in Alberta is dependent on the proportion of the corporation's total capital and labor used in manufacturing and processing in Alberta.

Active business income is the corporation's income from any active businesses net of losses from active businesses. For some taxpayers it is synonymous with taxable income. As with the federal program, active business income does not include net income from primary resource activities.

B. Small Manufacturers

Small Alberta firms with less than $200,000 in active business income and whose primary activity is manufacturing generally operate only within Alberta. In most cases their entire income is from manufacturing and processing in Alberta. To simplify and save them costs, these small businesses will be exempt from having to apportion their income and will benefit from the reduced tax rate on their entire active business income.

$$\text{Alberta manufacturing and processing profits} = \text{active business income} \times \left[\frac{\text{cost of labor employed in manufacturing in Alberta} + \text{cost of capital employed in manufacturing in Alberta}}{\text{total cost of labor} + \text{total cost of capital}} \right]$$

Step Three: Computation of the Manufacturing and Processing Tax Reduction

The manufacturing and processing tax reduction is a deduction from Alberta tax payable after the Alberta small business deduction, but before any Alberta tax credits are applied to reduce tax payable.

A. Corporations Eligible for the Alberta Small Business Deduction

The manufacturing and processing tax reduction for corporations eligible for the Alberta small business deduction reduces the tax rate from 5% to 0% on up to $200,000 of eligible income. Such a corporation will calculate its Alberta tax payable as follows:

Tax payable of 11% of Alberta taxable income

less

Alberta small business deduction of 6% on up to $200,000 of Alberta small business income

less

Alberta manufacturing and processing deduction of 5% on up to $200,000 of manufacturing and processing profits (not exceeding Alberta small business income).

If a corporation has manufacturing and processing profits in Alberta in excess of Alberta small business income, it is eligible for a tax rate reduction from 11% to 5% on the excess. It would continue the above calculations as follows:

less

Alberta manufacturing and processing deduction of 6% on manufacturing and processing profits in excess of Alberta small business income

yields

net Alberta tax payable.

B. Other Corporations

Corporations not eligible for the Alberta small business deduction are eligible for a manufacturing and processing tax reduction which reduces the tax rate on income from manufacturing and processing in Alberta from 11% to 5%. These corporations will calculate their Alberta tax payable as follows:

Tax payable of 11% of Alberta taxable income

less

Alberta manufacturing and processing deduction of 6% of manufacturing and processing profits

yields

net Alberta tax payable.

Examples

The following examples illustrate the deduction calculations for a small manufacturer, an intermediate size company and a large corporation with manufacturing activity in Alberta. To simplify these examples, it is assumed that taxable income is equal to active business income.

Example 1. Small Manufacturer

Assume this corporation, which has sheet metal fabrication as its primary activity but which also acts as a retail outlet for related goods, has taxable income of $200,000 and operates exclusively in Alberta. Also assume it is a Canadian-controlled private corporation so that it is eligible for the Alberta small business deduction. This corporation will be able to use the small business rules in Step Two: it will be able to claim all its active business income as manufacturing and processing profits and will be eligible for the tax reduction on its entire taxable income.

Determination of net tax payable, Step Three:

Alberta tax payable 11% x $200,000	$22,000
Less:	
Alberta small business deduction 6% x $200,000	12,000
Alberta manufacturing and processing deduction 5% x $200,000	10,000
Net Alberta tax payable	$ 0
NEW TAX SAVING	$10,000

Example 2. Medium Sized Canadian-Controlled Private Corporation

Assume this corporation, for example, a farm machinery manufacturer, has taxable income of $1,000,000 and because it is a Canadian-controlled private corporation, it is eligible for the Alberta small business deduction. Also assume that it operates in Alberta and another province and allocates 50% of its taxable income to Alberta. This corporation's taxable income allocated to Alberta is therefore $500,000 and it is eligible for the Alberta small business deduction on $100,000.

This corporation's cost of labor and capital are assumed to be as follows:

Cost of labor employed in manufacturing and processing in Alberta	$134,000
Total cost of labor	$300,000
Cost of capital employed in manufacturing and processing in Alberta	$160,000
Total cost of capital	$400,000

Applying the formula from Step Two, this corporation's Alberta manufacturing and processing profits are

$$\$1{,}000{,}000 \times \left(\frac{134{,}000 + 160{,}000}{300{,}000 + 400{,}000} \right) = \$420{,}000$$

Determination of net tax payable, Step Three:

Alberta tax payable 11% x $500,000		$55,000
Less:		
Alberta small business deduction 6% x $100,000		6,000
Alberta manufacturing and processing deduction		
5% x Alberta manufacturing and processing profits up to Alberta small business income of $100,000	$ 5,000	
6% x remaining Alberta manufacturing and processing profits ($420,000 - $100,000)	19,200	
Total		24,200
Net Alberta tax payable		$24,800
NEW TAX SAVING		$24,200

Example 3. Large Publicly Held Corporation

Assume this corporation, for example, the operator of a large petrochemical complex in Alberta, has taxable income of $50,000,000. Also assume that it has other activities in other provinces and that it allocates 25% or $12,500,000 of its taxable income to Alberta.

This corporation's cost of labor and capital are assumed to be as follows:

Cost of labor employed in manufacturing and processing in Alberta	$ 1,250,000
Total cost of labor	$15,000,000
Cost of capital employed in manufacturing and processing in Alberta	$25,000,000
Total cost of capital	$60,000,000

Applying the formula from Step Two, this corporation's Alberta manufacturing and processing profits are

$$\$50,000,000 \times \left(\frac{1,250,000 + 25,000,000}{15,000,000 + 60,000,000} \right) = \$17,500,000$$

Determination of net tax payable, Step Three:

Alberta tax payable 11% × $12,500,000	$1,375,000
Less:	
Alberta manufacturing and processing deduction 6% x $17,500,000	1,050,000
Net Alberta tax payable	$ 325,000
NEW TAX SAVING	$1,050,000